The Business Advocate Magazine

Nation's Business

January 1983

$2.25

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Challenge of The Job Training Act

Free Trade in Peril

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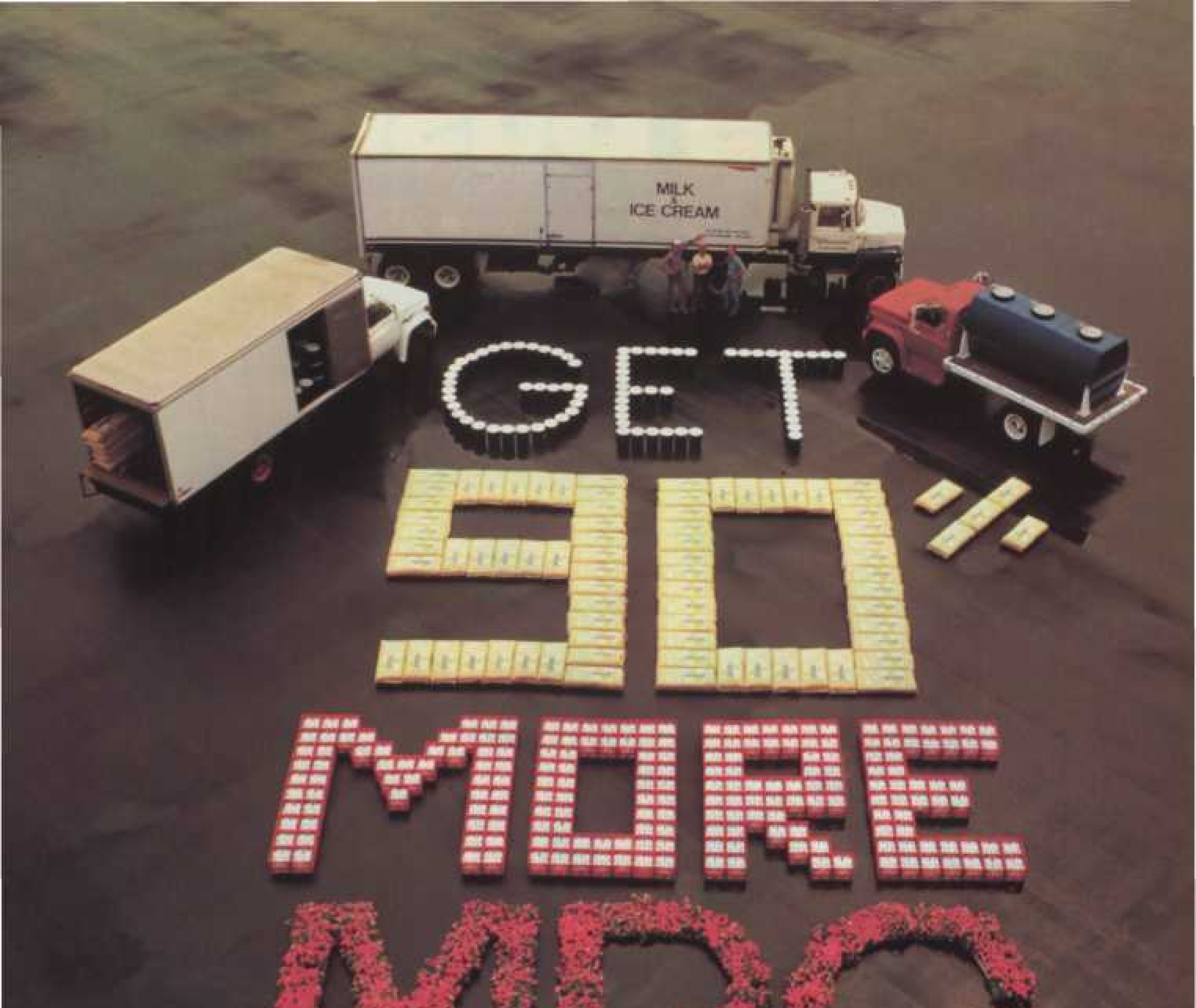

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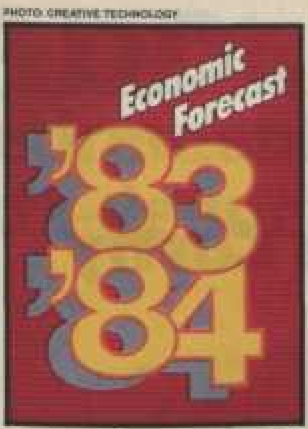

Nation's Business®

January 1983
Vol. 71, No. 1

Departments

Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N. W., Washington, D. C. 20062. Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 370-1440. Available by subscription, United States and possessions, $35 for two years, or in combination with *Washington Report*, the business advocate newspaper, $85 for two years. One-year subscription, $22, or in combination with *Washington Report*, $50. Printed in U.S.A. Controlled circulation postage paid at Washington, D.C., and additional mailing offices. *Postmaster:* Please send form 3579 to 4940 Nicholson Court, Kensington, Md. 20795

Delay on a Trust Could Be Costly

By John Hanly Adams

Interest rate gyrations and new tax rules can have a sharp impact on familiar tax-reducing moves, including short-term trusts.

A Clifford trust (named for the man who first won court approval of such a trust) is a good way to shift income from a highly taxed family member to a child or other dependent in a lower tax bracket. The law requires that the income from such a trust be dedicated to a beneficiary for at least 10 years; then the donor can reclaim the principal.

But you can incur a gift tax liability if the present value of the estimated income from money put in the trust exceeds the limits on tax-free gifts ($10,000 for a single donor, $20,000 for a married couple).

To calculate this present value the Internal Revenue Service has been using a 6 percent interest rate, but a much higher rate is being considered.

The accounting firm of Ernst & Whinney emphasizes the potential benefit of acting while the lower rate is still available. It gives this example: At the 6 percent rate, you can put $22,645 in a 10-year trust without incurring any gift tax liability. But if the IRS were to use a 12 percent rate, the tax-free amount would shrink to $14,749.

Treasury valuation tables also affect how large a deduction you can take for a charitable contribution when you dedicate income from a trust to a charity for less than 10 years. If, for example, a trust will pay $10,000 a year to a charity for eight years, you can take a $62,098 deduction at the 6 percent IRS rate. If the IRS were to use a 12 percent rate, you could take a deduction of only $49,676 for the same gift. Anyone planning to make such a gift in trust might be well advised to set it up now.

Summer Camp Credit

Thinking-ahead note for working parents: If you qualify for a child-care tax credit, next summer's camp costs for a child may be deductible within the credit's limits of 20 to 30 percent of adjusted gross income (depending on that income amount).

A mother working full time in an accounting firm sent her 11-year-old son to a camp for eight weeks at a cost of $1,100. She claimed that amount as a credit, arguing that other care for the same period would have cost as much or more.

The Tax Court upheld her claim, overruling the IRS, but warned that the decision applied only to her "facts and circumstances. . . . If the camp had been a specialized camp, such as a golf camp or a computer camp, our conclusion might be different."

New for 1983

Last month, Nation's Business listed major changes in the tax code that will take effect this year as a result of enactment of the 1981 and 1982 tax measures. The changes—with their attendant rules and court interpretations—will open up a host of opportunities and pitfalls for individuals and businesses.

Here are some more changes to bear in mind as the new year begins:

- Lower withholding on employes begins July 1 as the 10 percent cut takes effect (assuming Congress does not modify, accelerate or repeal the cut). Self-employeds get the lower rates with their first estimated tax payments on 1983 income. (See the table for examples of how taxes will be affected if the cut takes place as scheduled.)
- Although 10 percent withholding on income from dividends and interest begins July 1, the payer may choose not to withhold taxes if the payments for the year will not exceed $150.
- Likewise, withholding of income tax from pensions and deferred compensation such as "phantom stock" payouts begins January 1, but the withholding applies only to payments larger than $5,400 a year, and a taxpayer who is receiving more than that amount can elect against any withholding at all.
- The maximum deductible contribution to a self-employed person's Keogh retirement plan rises to $30,000 in 1983. The maximum deductible contribution to an employe's defined-benefit plan declines to $90,000.
- Individuals who make quarterly estimated tax payments must make them to a bank or other authorized financial institution, instead of an IRS service center. This will put individuals and corporations on the same system insofar as estimated tax payments are concerned.
- A new, nondeductible 10 percent penalty will be imposed on any "substantial underpayment" of income tax. That is in addition to the interest on the deficiency amount. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

The 1983 Tax Cut, as Now Scheduled

For Married Couples Filing Jointly

	1982		1983	
Taxable Income (Base Amount)	Tax	Tax On Amount Over Base	Tax	Tax On Amount Over Base
$24,600	$4,037	29%	$3,656	26%
35,200	7,323	39	6,624	35
45,800	11,457	44	10,334	40
60,000	17,705	49	16,014	44
85,600	30,249	50	27,278	48
109,400	42,149	50	38,702	50

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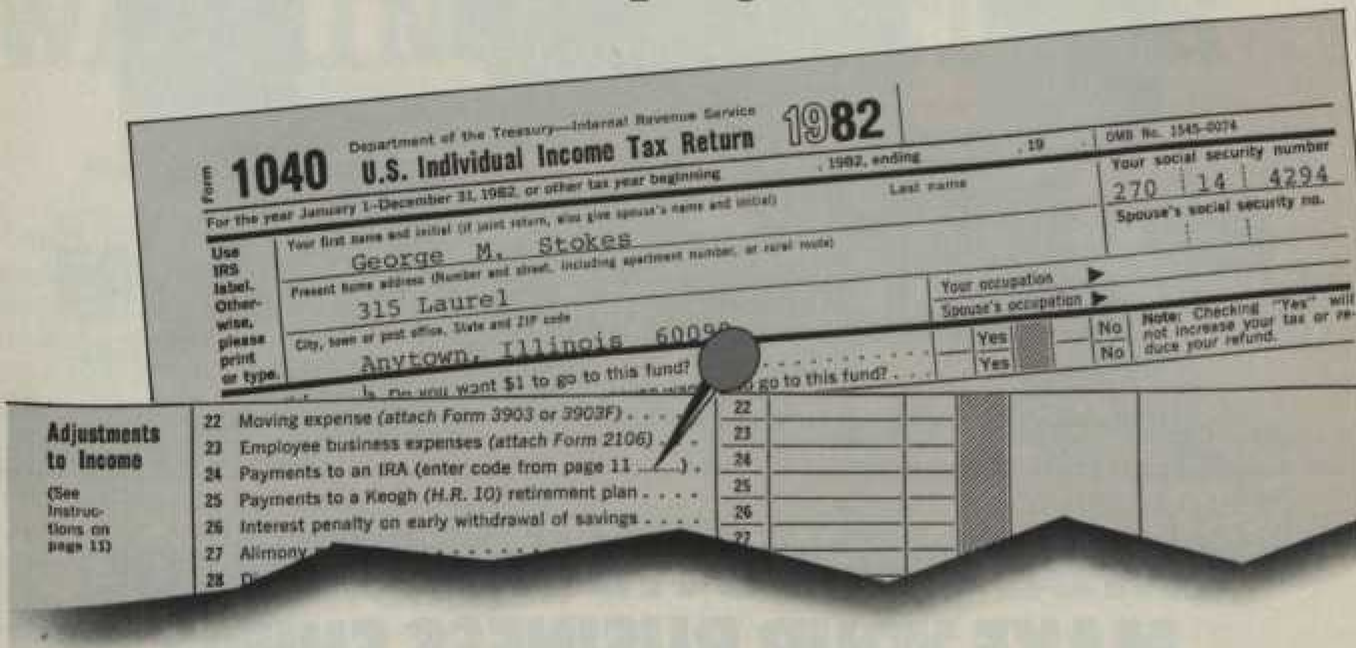

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WASHINGTON LETTER

▶ REAGAN ADMINISTRATION officials see presentation of fiscal 1984 budget--expected late this month or early next--as no-win situation. If spending cuts are large enough to reduce deficit, the cuts will be criticized; if not, the deficit will draw fire.

▶ ONE POSSIBLE OUT under discussion in Republican circles: Use off-budget loan guarantees to stimulate job formation in private sector, thereby creating new domestic program without adding to deficit.

▶ CONGRESSIONAL LEADERS warn that if interest rates turn upward, Congress will force the Federal Reserve Board to lower them. Could backfire, re-ignite inflation. Fortunately, most economists expect rates to fall--at least for next several months. But markets might react unfavorably if Congress proves unwilling to restrain federal spending.

▶ PLUMMETING PETRO PRICES? There's an outside chance. Organization of Petroleum Exporting Countries is suffering from internal dissension and external competition. Demand for oil is flat, and experts expect it to remain so. OPEC seems unable to suppress backdoor discounting by some of its members, despite repeated attempts. At some point, patience of Saudi Arabians may end. They have ability to force prices down unilaterally. Possibilities: Modest formal price cut sanctioned by OPEC; sharp temporary cut by Saudis, to teach OPEC partners a lesson; full-scale price war and plunging prices.

▶ OIL PRICE WAR would be mixed blessing. Lower energy costs would benefit Western economies initially. But weaker petro exporters could be pushed into default on loans, which would threaten stability of world financial system. Also, bargain prices would boost consumption while curtailing development of new supplies, leading to future shortages.

▶ PAY FARMERS with grain for not growing grain? Innovative idea floated by Agriculture Secretary John Block--which President Reagan says he will propose to Congress--is getting largely favorable reception on Capitol Hill and, among lobbyists. Would work like this: Farmers who agree to plant less this year than they did in 1982 would get grain from federal reserves to equal difference. Could save billions of dollars a year in crop subsidy and storage costs.

▶ GOT A MATCH? Good chance of future electricity shortages is foreseen by Department of Energy study. Report says there is no "crisis," but "there are unmistakable danger signs." Present reserve generating capacity is low, report notes, and state utility regulators have been under public pressure to hold rates below levels necessary to expand capacity. DOE may try to help by seeking reduction of federal red tape hampering power industry.

▶ MOST CONTROVERSIAL regulatory issue of 1983 may develop from administration attempt to find rational system for controlling substances suspected of causing cancer. Many experts believe present controls are unnecessarily tough, leading to bans on safe-level use of products that cause animal cancer at unrealistically high levels. Other experts argue there is no way to establish degrees of danger. Another factor: Public willingness to balance risks, as

demonstrated by public outcry against saccharin ban a few years ago. But potential for demagoguery remains strong because of issue's sensitivity.

▶ PLOT THICKENS on acid rain mystery. Environmentalists have been blaming problem on "smokestack" industries in Midwestern U.S. There's also evidence pointing to natural causes. Now comes study sponsored by U.S. Office of Naval Research disclosing "massive" air pollution blowing over North American Arctic from November to April. Prime suspect: coal-based industries in central Soviet Union.

▶ ANALYSIS of regulatory analyses suggests need for review of reviews. General Accounting Office has issued report critical of how cost-benefit studies are conducted in preparation for federal rule making. Complains GAO: Office of Management and Budget, which inspects proposed rules, rarely puts its comments in writing. That makes it "impossible to determine to what extent the rulemaking decision is made in the [originating] agency, as provided by the agency's statute, or in OMB." Solution, says GAO, is to invite public scrutiny of OMB review process.

▶ GOOD TIME to review your banking options. Deregulation of financial industry is proceeding so rapidly that new services are becoming legal faster than they can be promoted. Starting January 5, banks may offer any interest rate they choose on special checking accounts called "super NOW accounts." Depositors are required to maintain minimum balance of $2,500, but there is no limit on number of checks.

▶ SHAKE-OUT is expected in financial services industry as result of progressive elimination of interest rate ceilings. Savers will receive higher returns but borrowers will pay more, as banks and savings institutions struggle to recover higher costs of attracting savings. Higher interest rates on insured accounts could pull billions of dollars out of money market funds.

▶ 10-4 FOR CB LICENSES? Requirement for them will be ended if Federal Communications Commission has its way. Then anyone could buy and use a citizen's band radio without filing federal form. Would save $400,000 a year, says FCC. Public comment is requested.

▶ SPURT IN DEMAND for high denomination currency--$50 and $100 bills--is worrying federal officials. They see it as sign that "underground economy" continues to grow. Transactions that take place in cash are difficult to tax. Possible "solution": eliminate large bills. Not very likely.

▶ INTERNAL REVENUE SERVICE is having trouble coping with its rule-writing chores. Backlog late last year had topped 400. One law alone--Tax Equity and Financial Responsibility Act of last summer--added 25 projects to IRS list.

▶ FEDERAL INCOME TAX was voted "least fair" tax for fourth straight year in most recent poll of public attitudes by Advisory Commission on Intergovernmental Relations, a Washington-based bipartisan group created by Congress. Local property tax came in second, followed by state sales tax and state income tax. Curiously, though, the federal government was picked as the level of government that people believe gives them the most for their money.

▶ DON'T OVERLOOK new taxpayer rights, incorporated in little-noticed section of last summer's tax-increase bill. Taxpayers may now recover up to $25,000 in fees and costs when Internal Revenue Service is found by court to have been "unreasonable"; value of property exempt from IRS seizure--such as tools of trade--has been increased substantially; IRS must now advise taxpayers of their rights in proceedings, send final notice of delinquency by certified mail and release tax liens within 30 days after debt is satisfied. More detailed information is available free from Citizen's Choice, Room 334, 1511 K Street, N.W., Washington, D.C. 20005.

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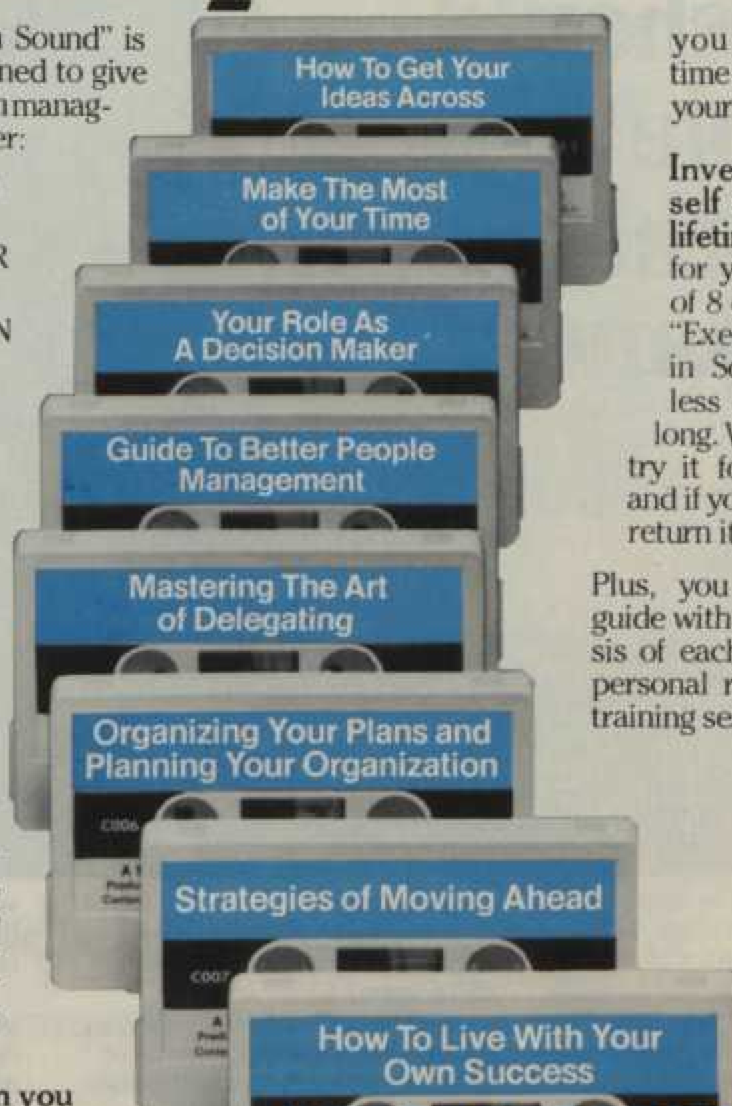

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Feedback on "Greenbacks"

I cannot share James J. Kilpatrick's unconcern with society's choices ["Of Greenbacks and Quarterbacks," November]. I share Dr. Lois DeBakey's disgust with the hypocrisy of a society whose leaders castigate businessmen and doctors for making a good living by, respectively, providing needed goods and relieving suffering and prolonging lives, while other persons are paid 10 or 100 times as much to play ball or perform trashy music.

Our remaining a free and prosperous society depends on the people's making rational and wise decisions. A society that makes a hero of a John Lennon is denying all the values that are necessary for freedom and order. I firmly believe that virtually all of the troubles now plaguing our country are due to lack of knowledge of, or rejection of, basic moral and economic principles.

What is my answer? I have none, other than education. Education in those values that history, reason and revelation have shown to be necessary for a free and prosperous society; values that for many years our media and more recently our educational system and even some of our churches have been destroying.

JOHN R. LEDBETTER, JR., M.D.
Rogersville, Ala.

I believe in the free market economy, as does Mr. Kilpatrick, but like the unwilling union member, I am purchasing the services of people I don't care to have represent me. I can boycott professional football games, but I can't avoid paying that part of the outrageous salaries that is built into the products advertised during telecasts of the games. If I don't watch the games, how can I determine which products to boycott? And how effective is a one-man boycott?

The free market economy, which normally establishes a fair rate of services, has been warped, and I am the warpee.

LARRY CHABOT
White Pine, Miss.

I agree with Kilpatrick, but a point he missed is that I have a choice whether I want to pay $15 for a pro football game or $25 to see Robert Goulet in Las Vegas.

I have no choice when I need an operation. I pay or die. Ten thousand dollars for a stomach stapling isn't too shabby for 20 minutes' work, Dr. DeBakey.

Another important point that Kilpatrick missed is that we consumers are paying higher prices for products because the networks are charging outrageous prices to advertisers for sports coverage. They are in bidding wars for exclusive contracts with the National Football League, knowing full well that the consumer will pay in the end. It is people on fixed incomes—not Dr. DeBakey—who have a gripe against big salaries.

ED POWELL
Executive Director
Phoenix Board of Realtors
Phoenix, Ariz.

Kilpatrick does not say so bluntly—probably in deference to the redoubtable Dr. DeBakey—but those who question the free marketplace and the laws of supply and demand are espousing socialism.

Kilpatrick hit the nail on the head when he said, "Every one of us has a different set of values. . . ."

When I see a million-dollar athlete whose facility with his feet is infinitely superior to his facility with the English language, the tendency may be toward jealousy (a very human emotion), but it doesn't negate my admiration for his (or his agent's) getting what some equally greedy owner is willing to give.

JACK GARRITY
President
Jack Garrity Sales
Horseheads, N.Y.

Controlling health costs

Susan Duncan's article "What's Next on Health Cost Control" [November] was well done. It is clear that our hospitals are now dangerously close to bankruptcy, thanks to government intervention in the medical marketplace in 1965. Because the fiscal burden of Medicare/Medicaid has become so onerous, the government has been reimbursing hospitals at a steadily declining rate, resulting in the 17 percent overall cost shift to the private patients. And now

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WASH/E/2

employers are fed up—rightly so—with the burgeoning cost of medical insurance premiums for their employes, a good 20 percent of which is due directly to this Medicare/Medicaid cost shift.

We must demand that our legislators be honest with the American people. Medicare/Medicaid has been a boon in the short term to patients and physicians by transferring wealth from productive individuals to physicians for the care of the "indigent." But our productive citizenry can no longer bear further confiscation of their property. Let's phase out Medicare/Medicaid. Those who have needs that they cannot meet can trust in the compassion and goodwill of physicians and our communities to take care of them.

GREGORY POLITO, M.D.
Whittier, Calif.

The budget-busters

Your article "Purse-String Holders Under Fire" [November] lists some possible budget reforms, but they don't get at the core of the problem.

Does anyone believe that moving to a two-year budget cycle will change anything? Most of the people in Congress want to spend more of our money. The only reform that will work is a constitutional amendment to fix spending as a percentage of GNP and to punish congressmen, if they don't obey, by cutting their salaries in half for any years when they spend too much.

ROGER WITHERSPOON
Anaheim, Calif.

More on jobs tax credit

Re: "SBA Officials Urge Jobs Program Reform" [Outlook, November]. There are three points that need clarification.

First, as with earlier credits, the contemplated jobs tax credit would be tied to an employe's wages, up to a ceiling. However, the new proposal is unique in that the primary refund mechanism would be the Social Security tax. Thus, the employer could receive the benefits of the jobs tax credit right away, because he would have to remit less in quarterly withholdings. The unemployment tax base would be used to determine maximum available benefits to the employer in the first year of the three-year jobs tax credit cycle and also to determine overall available benefits.

Second, the cost of the proposal to the Treasury has not been estimated. The $2 billion figure cited in the article is my estimate of the first-year cost of the 1977-78 new jobs tax credit.

Third, I have no information that small businesses lack knowledge of the current targeted jobs tax credit. This claim of ignorance was one of the arguments made by those who supported extension of the 1977-78 new jobs tax credit. They felt that ignorance of the credit was the reason for its allegedly poor initial performance. However, substantial efforts have been made by both the Treasury Department and Small Business Administration to publicize the targeted jobs tax credit. Its weakness does not center on the knowledge of its availability but rather on the limited number of individuals who qualify for the credit.

GEORGE GUTTMAN
Office of Advocacy
U.S. Small Business Administration
Washington, D.C.

Bleeding the turnip

If those misguided Chrysler auto workers have not seen the quote of the decade by Chrysler President Lee Iacocca, may I bring it to their attention here? He said: "We cannot continue to raise wages out of losses." Come on, union members, let's stop demanding massive blood transfusions from a patient who is still in the recovery room.

RICHARD J. WELSH
Welsh and Company
Pittsburgh, Pa.

Are we living longer?

Re: "Should the Social Security Retirement Age Be Increased?" [Where I Stand, November].

The table below shows the life expectancy for white males age 65. All but the 1980 number were taken from U.S. life tables published by the National Center for Health Statistics, a federal agency, and derived from census statistics for the years shown. U.S. life tables have not been published for the period 1979-81. The 1980 figure also comes from the National Center for Health Statistics but is a provisional figure and is probably slightly higher (1 to 2 percent) than the U.S. life table will be.

Years	Life Expectancy at Age 65 For White Males
1919–21	12.21 years
1929–31	11.77
1939–41	12.07
1949–51	12.75
1959–61	12.97
1969–71	13.02
1980	14.10

If we accept the 1980 figure, we have had a two-year improvement in life expectancy in 40 years. In my opinion, this is not significant enough to justify an increase in the full benefit retirement age for Social Security.

RICHARD BOSWELL, F.S.A.
Vice President and Actuary
National Western Life
Insurance Company
Austin, Tex.

Payroll Issues on Congress' Agenda

PHOTO: CURT W. KALDOR—UNIPHOTO

Should there be a two-tier minimum wage, with a lower rate for teen-agers who hold jobs like those in fast-food restaurants? Congress may decide.

There aren't any blockbusters looming, but Congress will consider a variety of issues important to small business in coming months.

Most often mentioned by small business groups and legislative insiders is a compromise on Social Security funding that won't raise the payroll tax.

Small firms are often more labor-intensive than bigger businesses, so "they bear a disproportionate burden," says Eamonn McGeady, president of Martin G. Imbach, Inc., of Baltimore, and legislative chairman for the Small Business Council of the U.S. Chamber of Commerce. "A continued escalation of the tax base and tax rate, as is being considered, makes even the employment of one additional person a major decision," McGeady says.

Some other subjects likely to get congressional attention:

- A dual minimum wage that would allow businesses to pay teen-agers less than the current federal floor of $3.35 an hour.
- A federal procurement bill that would help boost small business' share of a $100 billion market for goods and services.
- The Regulatory Flexibility Act. A House subcommittee will step up its surveillance of federal agencies' compliance with the 1980 law. Some agencies, notably Defense, are moving very slowly toward the legislative goal of tailoring regulations to make it easier for small firms to comply.

The U.S. Does Better At Paying Its Bills

The federal government has shown "vast improvement" in paying its bills on time since the Prompt Payment Act took effect in October, says Kenneth Munro, spokesman for the coalition that pushed the act through Congress. Now a new coalition of associations, corporations and business representatives has made slow-paying state governments the targets for similar legislation.

Munro, who is also spokesman for the new coalition, says many states are worse than the federal government used to be (it paid late about 40 percent of the time). Among the slowest states, he says, are New York and Pennsylvania.

The Prompt Payment Act requires the federal government to pay its bills within 45 days or face an interest penalty, currently 15.5 percent, beginning with day 31. About 90 percent of government contracts are with small distributors, manufacturers and service firms. When the government pays late, these firms are forced to borrow—sometimes hefty amounts—just to stay alive. The Coalition for State Prompt Pay has a base to build from: Munro says 11 states have some kind of prompt pay law and several more have statutes that cover certain kinds of contracts.

Regulators Vow To Make Life Simpler

"Regulation [of business] should be the exception, and the forces of competitive free markets and free consumer choice should be the norm. Government regulations should be as efficient, clear, simple and rational as possible."

These aren't the words of a beleaguered entrepreneur but rather a statement of deregulatory purpose made by an informal group of 14 independent federal agencies, the Council of Independent Regulatory Agencies.

Small business will be a prime beneficiary as agencies like the Federal Communications Commission, the Federal Maritime Commission and the Federal Home Loan Bank Board try to reduce what a recent council report calls "unnecessary and undesirable" regulations. Among initiatives expected soon are Securities and Exchange Commission moves to further simplify regulation of financial markets.

The council report cites among recent successes:

- The SEC has exempted most stock offerings up to $5 million from costly Securities Act registration.
- The Consumer Product Safety Commission has delayed the effective date of a standard governing CB antennae so that small manufacturers can comply without undue expense.
- A bus deregulation act allows carriers—most of whom operate five or fewer buses—the long-sought freedom to raise and lower fares without Interstate Commerce Commission approval.

And since the agencies aren't churning out new rules, their budgets—already squeezed by limitations in the overall federal budget—have grown only marginally since 1980. The agencies' work force has shrunk nearly 10 percent in the same period, the council report states.

DEFENSE

Tougher Testing of New Weapons Pushed

Contractors warn that more testing will raise weapon costs.

Traditionally, the Pentagon has tried to move weapons systems into full production as quickly as possible. This has sometimes led to the purchase of weapons that did not perform as advertised.

Sen. David Pryor (D-Ark.) wants to change that by requiring more rigorous testing of the prototypes of new weapons before the decision to start production is made.

Under Pryor's bill, a test office would be set up, apart from the Pentagon bureaucracy, to pass "independent judgment" on new weapons—guaranteeing that they will not be "sent to the battlefield prematurely," he says.

Sens. William Roth (R-Del.) and Carl Levin (D-Mich.) are cosponsoring Pryor's bill. The legislation was introduced last October and will be reintroduced in the new Congress.

The defense industry is now studying the implications of conducting more rugged field tests and testing weapons much sooner in the procurement cycle.

Several major defense prime contractors contend that if a bill like Pryor's becomes law, the procurement cycle will be lengthened, adding substantially to the cost of new weaponry.

Defense Boom For Electronics Firms

Small electronics firms scouting for new business opportunities should hone their marketing skills—the U.S. electronic warfare equipment market is on the verge of a sharp upturn.

Experts in this field estimate that growth will range between 25 and 50 percent over the next five years, depending largely on how much of the Pentagon's wish list Congress eventually funds. Defense Department spending in electronic warfare will certainly be in the billions.

"Even at the low end, this will be the source of one of the next major investment opportunities," says Judith L. Comeau, aerospace and defense electronics analyst for Goldman, Sachs & Company.

Contracts for electronic warfare systems are getting bigger, and they are being awarded to fewer companies because of increasingly complex technological and production requirements. But there is still plenty of room for innovative firms with a strong technical base. Among the companies that are likely to benefit most from the expected upturn are small firms specializing in components like coaxial cable.

Most of the items that will be in heavy demand are relatively inexpensive pieces of equipment, but low unit prices will be offset by the huge volume that industry will be asked to supply to all branches of the armed services. "That same volume should also lead to more efficient procurement of electronic warfare systems," says Comeau.

Companies hoping to cash in on this market will have to be aggressive marketers and excel in consistently producing high-quality products and delivering the goods on time, advises Comeau.

INTERNATIONAL

Two-Way Traffic-But in a Circle

Coal has never been exported from West Virginia to Newcastle, England, but it is not too outlandish to expect that somebody will indeed carry West Virginia coal to Newcastle—and vice versa—in the years ahead under the international IIT concept.

IIT is the term economists use to describe intra-industry trade—the simultaneous export and import of the same commodity by two countries.

If you think it's absurd for West Virginians to import coal from Newcastle, consider that Japan not only exports vast amounts of its national alcoholic beverage, sake—the fermented rice brew—but also imports some sake from the United States.

Jeffrey H. Bergstrand, a Federal Reserve Bank of Boston economist, has studied the almost illogical growth of IIT markets. He finds that as countries began to achieve higher per-capita incomes in the 1970s, "consumers' tastes began to diversify—leading to imports of styles appealing to various minorities' tastes."

However, IITs cannot be explained just by taste differences, Bergstrand points out in an in-depth study in *The New England Economic Review*. For instance, American imports of stainless steel items from European nations in a recent 12-month period were almost exactly equaled by American exports of very similar stainless steel items to Europe.

Time for America To Join a Team?

At its present pace America is falling further and further behind certain European nations, Japan and the Communist giants of Russia and China in the race for global business, according to Graham T.T. Molitor.

Molitor, president of Public Policy Forecasting, of Potomac, Md., specializes in analyzing long-range international business trends.

He says America lags behind countries that have formed their own international economic alliances—the oil cartel, the Communist bloc, the European Common Market—and the huge combines of Japan with their own 25- and 30-year economic plans.

Molitor says this country should form its own regional industrial bloc of nations, teaming up with Mexico, Canada, Greenland, Iceland and some Caribbean island states to go after world business markets more aggressively.

By the turn of the century, agriculture and manufacturing will "long since have ceased being mainsprings in the U.S. economy," Molitor predicts. "The key is to concentrate 50 percent of the U.S. work force in brainpower. Solid-state devices, microelectronics and computers will be the new mainsprings, and they are to the 'information era' what petroleum, steel and the internal combustion [engine] and the induction motor were to the industrial age."

Graham T.T. Molitor: The U.S. and its neighbors must form an economic bloc.

ICC May Be Headed for the Scrap Heap

The 98th Congress may seriously consider abolishing the nation's oldest regulatory agency, the Interstate Commerce Commission, which was created by Congress in 1887.

A series of deregulatory measures has already reduced its authority over rates and market entry for truck, rail and bus companies in recent years. Now a bill aimed at phasing out the ICC is being written by the Department of Transportation and the White House, with suggestions from the ICC itself. The bill will probably be introduced in the next few months.

Drew Lewis, the DOT secretary, favors abolishing the ICC. "There will be less need for the ICC as trucking becomes more deregulated. ... Maybe at some point you could have a consolidated agency that has some regulatory overview of all transportation," he says.

The still-developing bill may take one of these approaches:

- Phasing the agency out as is now being done with the Civil Aeronautics Board, whose functions are being eliminated or transferred to DOT.
- Eliminating all ICC functions.
- Combining a number of federal agencies into one giant department embracing all forms of transportation.

Even ICC Chairman Reese H. Taylor, Jr., often called a reluctant deregulator, seems open to the commission's demise.

"There is no one on the commission who isn't committed to moving down the deregulatory path," Taylor says.

PHOTO AMTRAK

Even the most popular Amtrak routes must be subsidized with tax dollars.

Amtrak: High Cost For Low Quality

Funds to maintain the nation's decaying transportation system are far too precious to be wasted on Amtrak, the government-subsidized rail passenger system, say two recently published studies.

Transport Tomorrow, the capstone of a two-year study by the National Chamber Foundation, states that "in a period of revenue stringency, expenditures on Amtrak are unjustified and wasteful." The present or prospective benefits the public gets from Amtrak "do not warrant the levels of support it receives."

The Foundation, a nonprofit, financially independent affiliate of the U.S. Chamber of Commerce, recommends in its comprehensive report that user fees pay for road, rail and waterway improvements to the greatest possible extent.

In a report for the Heritage Foundation, a Washington-based think tank, researcher John Semmens says Amtrak occupies "a strange niche" in the economy. "Amtrak provides low-quality service at a high price," he says.

"Perhaps that is why its market share is a paltry 0.3 percent of intercity passenger travel."

ECONOMICS

Consumers: Cautious But More Hopeful

Consumers are still in a cautious mood, but many expect to be better off by the end of the year. That's the news from an opinion survey conducted late last year by the Survey Research Center of the U.S. Chamber of Commerce.

Forty percent of the 1,337-person sample said their financial situation was worse last October than it had been a year earlier. However, 38 percent foresaw improvement by October, 1983.

A further sign of optimism is found in the response to questions about incomes and prices. Only 45 percent expect their incomes to rise less than prices during the year, down from a peak of 61 percent in March, 1981.

For the immediate future, though, many pocketbooks are likely to remain closed. Fifty-one percent believe this is a bad time to make major purchases for the home.

These consumer expectations of gradual improvement through 1983 and beyond parallel those of most professional economists.

Another major survey of consumer attitudes, the Index of Consumer Sentiment compiled by the Survey Research Center of the University of Michigan, shows an even stronger trend toward optimism.

The Michigan index bottomed out at 62.0 in March, 1982. For last October it was 73.4.

The Narrowing Gap In Regional Incomes

Regional income differentials in the United States, like regional accents, seem to be fading away. A recent Commerce Department study provides dramatic evidence of this process.

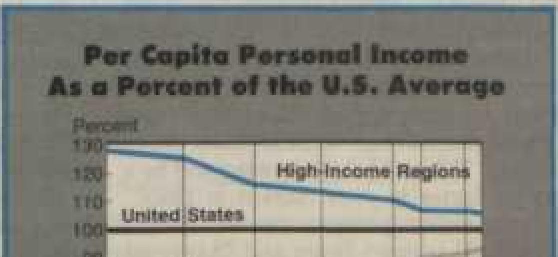
From 1929 to 1981, per capita income in the low-income regions increased from 64 percent of the national average to 92 percent. Over the same period, the high-income regions' per capita income declined from 127 percent to 106 percent of the national average.

U.S. per capita income in 1981 was $10,491, up from $697 in 1929 (equivalent to $3,701 in 1981 dollars).

Since 1929, the Far West has displaced the Middle Atlantic states at the top of the income rankings. The Southeast came in last both years, but it has registered the most rapid gains during the period, rising from 53 percent of the national average to 86 percent.

The Middle Atlantic states—Delaware, Maryland, New Jersey, New York, Pennsylvania and the District of Columbia—experienced the biggest relative decline.

The 10 states showing the largest relative gains, in order of magnitude, are North Dakota, South Carolina, Virginia, Georgia, North Carolina, Texas, Oklahoma, Arkansas, Louisiana and Alabama.



Making Backaches Less of a Headache

Low back pain is all in a day's work, but ergonomists hope to change that.

Truck drivers and nurses may seem to have little in common, but ergonomists have found a bond—both face a high risk of low back problems.

The country counts fewer than 100 ergonomists—specialists concerned with designing or redesigning jobs to be consistent with people's physical ability to perform them.

Of major concern are low back problems. "This occupational disorder may cost anywhere from $15 billion to $30 billion a year in workers' compensation and indirect costs," says W. Monroe Keyserling, assistant professor of occupational safety at Harvard University.

In fact, so troubling are back disorders among workers that the Occupational Safety and Health Administration is considering designing a regulatory standard for lifting objects.

Ergonomists are finding that other worker ailments—like tendonitis, which results from repetitive motion—occur frequently.

"Of particular interest is carpal tunnel syndrome," says Keyserling. This syndrome, whose symptoms are burning pain and tingling or numbness in the thumb and first two fingers, "results from repetitive hand motions and may affect up to 15 percent of garment workers in certain jobs, and it is also prevalent in the electronics and automotive industries."

Share the Work, Keep the Benefits

Rising unemployment may encourage some states to try short-time compensation, which promotes the sharing of available work by allowing partial payment of unemployment benefits.

STC, as it is called, got congressional approval last August as an amendment to a tax bill. It was introduced by Rep. Patricia Schroeder (D-Col.).

The legislation promotes work sharing or partial employment for the entire work force of a company during economic downturns, as opposed to layoffs for a part of the work force.

Those on partial layoff in an STC program can receive unemployment benefits for the part of the week they are unemployed. This differs from the regular unemployment compensation system, which was designed to pay benefits only to those who are totally unemployed.

The legislation does not require states and employers to try STC but offers assistance to those that want to try it.

California has been experimenting with STC for four years. More than 3,000 employers have filed reduced-work plans, covering 112,000 employes.

An employe may draw up to 20 weeks of shared-work compensation if his or her hours are reduced by at least 10 percent.

Supporters of STC say the program combats cyclical unemployment and permits employers to keep skilled work forces intact during slumps.

Bankers: Freedom, It's Wonderful

Bankers not only accept deregulation, they welcome it. That message comes through loud and clear from a survey of the chief executive officers of Southern commercial banks.

Deregulation is ranked by the CEOs as one of their most critical concerns, but 89 percent believe it should proceed. Seventy-nine percent favor repeal of the Glass-Steagall Act (which separates the banking and securities businesses).

The bankers also think they should be allowed to acquire thrift institutions (91 percent) and out-of-state banks (81 percent).

Interestingly, they believe that local competition is much more likely to come from nonbank organizations than from giant commercial banks. They were asked, "Which of the following will be a major factor in your market in 1990?" Ninety-seven percent picked Merrill Lynch, 91 percent Sears and 78 percent Shearson/American Express. On the other hand, Citicorp scored only 54 percent.

Confidence in the eventual legalization of interstate banking is running high. Thirty-six percent of the respondents reported being approached by an out-of-state bank and 14 percent said they initiated discussions.

The survey was conducted by the Atlanta office of Egon Zehnder International, an executive search firm.

Basic Questions About Federal Rules

Clues to Reagan administration initiatives affecting the future of the financial industry have been flowing from Treasury Deputy Secretary R.T. (Tim) McNamar.

In a series of speeches, he proclaimed a number of regulatory laws in need of revision, hinted that the Vice President's task force on regulatory relief will soon begin drafting legislation to that end, and urged Congress "to get on with the task at hand" in February.

McNamar raises numerous provocative questions:

- Is there economic justification for rules such as interest rate ceilings, quarterly earnings reports and the Foreign Corrupt Practices Act?
- Do we now have the best division of responsibility among the federal regulators? Should the Comptroller of the Currency be separate from other bank regulatory agencies? Should the Federal Reserve Board remain both a bank regulator and a formulator of monetary policy?
- Why shouldn't thrift institution holding companies be authorized to provide the same financial services as bank holding companies?

These questions need legislative answers, says McNamar, and "we can't wait another year" for them.

R.T. McNamar: Congress shouldn't dawdle on changing regulatory laws.

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'83 '84

U.S. CHAMBER ECONOMIC FORECAST

Consumer Demand Is Heading Upward

PHOTO: DENNIS BRACK—BLACK STAR

CONSUMERS WILL GET the economy moving this year as they respond to lower interest rates and rising disposable income, according to projections prepared for NATION'S BUSINESS by the U.S. Chamber Forecast Center, the economic forecasting arm of the U.S. Chamber of Commerce. This upturn in consumer demand will draw down business inventories, boosting industrial production during the recovery's early stages.

However, because of the record low levels of capacity use, investment spending by business—which typically lags behind in a recovery—will not pick up until mid-1983.

The economy will expand modestly in the first half of the year, becoming stronger in the second half. Real (inflation-adjusted) gross national product is expected to rise 3.6 percent in 1983 and 5.5 percent in 1984.

Interest rates are expected to decline throughout the next two years. The prime rate could be about 10 percent at the end of 1983 and 9 percent in 1984. If inflation is kept in check, the decline in short-term interest rates will probably continue to bring long-term rates down as well.

Inflation, as measured by the consumer price index, should average about 5 percent in 1983 and 4.8 percent in 1984, well below the 1980 peak of 13.5 percent.

Unemployment will remain stubbornly high this year, averaging close to 10 percent of the work force. As the recovery gains strength in mid-1983, the picture will improve, and for 1984 the unemployment rate could fall below 9 percent.

Housing starts and new auto sales, boosted by lower interest rates, will increase significantly over the next two years. Housing starts are projected to show a year-over-year gain of about 40 percent in 1983; new car sales should reach 9.3 million. These developments will have positive repercussions on a number of other industries.

A major risk in this recovery scenario is the possibility of an increase in interest rates, because of either excessive monetary ex-

The Big Picture

(Annual percentage change in constant dollars)

	1981	1982	1983	1984
GNP	1.9%	−1.5%	3.6%	5.5%
Inflation rate	10.3	6.1	5.0	4.8
Prime interest rate	18.9	14.8	10.1	9.3
Unemployment rate	7.6	9.6	10.0	8.8
Consumption	1.8	1.0	3.7	4.5
Durables	2.2	−1.0	11.9	12.3
Nondurables	1.8	0.9	2.2	2.7
Services	1.7	1.8	2.4	3.4
Business fixed investment	3.5	−4.7	−1.8	10.0
Equipment	2.4	−7.5	0.9	12.5
Structures	6.3	1.8	−7.3	4.2
Exports	−0.5	−4.5	1.4	7.3
Imports	7.2	1.3	4.7	7.2

PHOTO: J. TKATCH—UNIPHOTO

Despite the strong growth foreseen for nondurables sales this year, spending for new production facilities—such as this phosphate refinery—will decline.

pansion by the Federal Reserve—which could lead to renewed inflation expectations—or a tighter monetary stance by the Fed in response to the surge in money growth that occurred at the end of last year.

Another imponderable: the prospect of a huge federal deficit, now estimated at $185 billion to $200 billion, for fiscal year 1984. How Congress and the Reagan administration respond to this prospective deficit could have a substantial impact on economic recovery. Failure to restrain spending could bring a major tax increase, which would greatly reduce the chances for sustained economic growth.

Forecasts for some major industries:

Manufacturing

Manufacturing output is expected to rise 5.8 percent over its 1982 level; yet this increase will not be large enough to raise production above the 1981 (or even 1980) level.

Capacity use in manufacturing will average only 72.6 percent this year, compared with a normal rate of about 83 percent.

Real expenditures for manufacturing plant and equipment are expected to decline for the second year in a row. In constant (1972) dollars, this sector will spend an estimated $52.8 billion for plant and equipment, a decline of 6.4 percent from last year's level.

A lot of this spending will occur in the fourth quarter of this year, and much of it will be devoted to upgrading existing facilities.

Manufacturing industries will employ about 307,000 fewer persons in 1983 than in 1982.

Durables

Lumber and wood, furniture, primary metals, fabricated metals, electrical and nonelectrical machinery, transportation equipment, instruments, stone, clay and glass.

Except for nonelectrical machinery and miscellaneous durables, manufacturing of durable goods is projected to increase across the board. In percentage terms, the largest advances will be in lumber and wood, primary metals, and transportation equipment.

With new housing starts expected to increase nearly 40 percent to 1.4 million units this year, lumber and wood production should follow suit, reaching its highest level since 1979.

The average age of the domestic automobile fleet is the highest in many years. This fact, along with lower interest rates on car loans, could boost new car sales by as much as 1.5 million units this year.

Increased production of automobiles and of parts for autos and other motor vehicles largely accounts for the 13.2 percent rise in transportation equipment forecast for 1983. However, production of mobile homes and of trucks and buses is also expected to rise (29.6 and 21 percent, respectively). Railroad and aircraft equipment production will fall.

Rising production of transportation equipment will have a beneficial effect on output in both the primary and fabricated metals industries.

Machine tools, farm machinery and equipment, and construction equipment will experience the largest declines in output and employment in 1983.

Overall, the number of workers employed in durable goods manufacturing will drop 329,000 in 1983. Employment will increase only in lumber and wood, and in stone, clay and glass. In both absolute and relative terms, the greatest loss of jobs—213,000, or 9.3 percent—will come in the nonelectrical machinery industry. This will be so even though employment in one segment of the industry, computer manufacturing, is likely to increase.

Durable goods producers will spend

Manufacturing Output and Employment

Annual Rates of Growth for 1983

	Output	Employment		Output	Employment
Durables	**5.4%**	**−3.0%**	**Nondurables**	**6.2%**	**0.3%**
Lumber and wood	12.6	4.5	Food and food products	3.0	−1.0
Furniture	2.5	−1.2	Tobacco	1.8	−1.1
Stone, clay and glass	8.4	1.8	Textiles	9.3	0.0
Primary metals	10.1	−3.3	Apparel	8.5	0.8
Fabricated metals	8.3	−3.2	Chemicals	7.7	1.0
Nonelectrical machinery	−1.2	−9.3	Printing and publishing	3.1	0.9
Electrical machinery	4.1	−2.1	Petroleum refining	3.7	2.6
Transportation equipment	13.2	−0.4	Rubber and plastics	12.2	−0.3
Instruments	3.6	−2.1	Leather	−1.0	−1.6
Miscellaneous	−0.7	−2.0			

Construction

	Levels			Annual Percent Change		
	1981	1982	1983	1981	1982	1983
Fixed residential investment (In billions of 1972 dollars)	44.9	41.0	52.4	−4.9%	−8.8%	28.0%
Residential construction	42.9	39.0	50.3	−5.0	−9.1	29.0
Housing starts (In millions of units)	1.10	1.03	1.43	—	—	—
Single-family	.71	.64	.86	—	—	—
Multifamily	.39	.40	.56	—	—	—
Additions and alterations (In billions of current dollars)*	24.1	26.5	30.4	13.1	9.9	14.9
New construction put in place (In billions of current dollars)	60.8	63.5	64.0	15.5	4.5	0.8
Industrial	17.0	16.7	15.7	22.0	−1.7	−6.0
Commercial	34.2	36.8	35.4	13.9	7.6	−3.9
Nonprofit institutions	9.6	10.4	13.0	10.6	8.3	25.1
Total new public construction (In billions of current dollars)	53.8	48.8	48.7	−2.5	−9.4	−0.2
New mortgage commitments (In billions of current dollars)	60.0	58.6	113.2	−31.2	−2.2	93.2
Prices						
Implicit price deflators†						
Private residential construction	2.34	2.41	2.53	6.9	2.9	5.0
Private nonresidential construction	2.01	2.11	2.18	8.1	4.9	3.3
Expected inflation, new-home price	7.2%	5.2%	6.9%	—	—	—
Median sales price, new single-family homes (In thousands of current dollars)	68.8	70.9	76.8	6.4	2.9	8.4
Employment (In millions)	4.18	3.92	3.91	−4.0	−6.1	−0.3

* Current as of the year designated; unadjusted for inflation.
† 1972=1.00; to convert 1972 dollars to some other year, multiply by the implicit price deflator for that year.

Housing will lead the recovery of the construction industry. Changing life-styles will increase the proportion of multiunit starts.

PHOTO: BART BARTHOLOMEW—BLACK STAR

approximately $1.1 billion less in real terms for plant and equipment this year than in 1982. Over one fifth of this reduction will occur in the iron and steel industry, which will spend $250 million, or 14.2 percent, less after adjusting for inflation. Transportation equipment manufacturers will reduce their spending by about $280 million; about $120 million of this will be in motor vehicles.

Nondurables

Food products, tobacco, textiles, apparel, paper, chemicals, printing and publishing, petroleum, rubber and plastics, and leather.

Nondurable goods production will grow 6.2 percent in 1983, outstripping the increase in durables manufacturing and reaching an all-time annual high. Employment in this subsector will also go up, but by only 22,000 jobs or 0.3 percent. The relatively smaller increase in employment reflects recent productivity gains, particularly in textiles, apparel and chemicals.

These three industries as well as rubber and plastics will register the biggest increases in production next year. The increase in textiles largely reflects the rise in demand for carpets by the home-building and auto industries.

The rubber and plastics industry is also very sensitive to the level of auto production, as is the chemical industry.

Petroleum refining will experience a modest 3.7 percent rise in output in 1983 after four successive years of decline. However, because of the slow pace of the recovery as well as efforts to conserve on oil and gas consumption, refining activity will remain more than 12 percent below its 1978 level.

Despite its relatively strong recovery in 1983, the nondurable goods sector will reduce real outlays for plant and equipment by $2.5 billion, more than twice the decline projected for manufacturers of durable goods. Almost $1.4 billion of the nondurable goods decline will occur in petroleum refining, which currently accounts for about 37 percent of all real plant and equipment spending in the sector.

Only two nondurable goods industries—food products and textiles—will spend more on plant and equipment in real terms in 1983 than in 1982. The textile industry will spend 9.3 percent more but its real outlays will still be nearly 26 percent below their 1978 level.

Construction

General building contractors, heavy construction contractors (public works and industrial construction) and special trade contractors (plumbing, heating, electrical, etc.).

An annual average of 1.8 million new

Mining

	Levels			Annual Percent Change		
	1981	1982	1983	1981	1982	1983
Plant and equipment expenditures (In billions of 1972 dollars)	7.8	7.2	6.9	15.2	−7.0	−4.6
Gross capital stock (In billions of 1972 dollars)	62.2	66.3	69.6	8.1	6.6	5.0
Employment (In millions)	1.13	1.12	1.12	10.6	−0.7	0.0
Indices of productivity (1967 = 100)	45.9	45.8	45.8	−0.5	−0.2	0.0

housing units will be built in the next three years—a significant increase from the 1980-82 average of 1.1 million.

As a result of the changing demography of the American household, multiunit starts could rise to 40 percent of total starts, up from about 30 percent in the last half of the 1970s.

The office building boom of the last few years created a space surplus that will take time to work off. The current office vacancy rate is 8.9 percent, twice the 3.7 percent of 1980. It is expected to increase as many buildings now under contruction reach completion. Office construction will decline significantly in the year ahead. The number of square feet contracted for in the third quarter of 1982 was more than 25 percent below the level a year earlier.

Industrial building, like other forms of capital spending, will lag behind in the recovery. There will be no significant change in the outlook for industrial building until the capacity use rate—now below 70 percent—increases.

With the expected housing recovery in the next few years, retail construction will pick up. However, the upturn may be limited because of the increase in multiunit housing, which will result in less population dispersion than in recent years.

Consequently, there will be less need for new regional shopping centers.

Mining

Metals, bituminous coal and lignite, oil and gas extraction, and nonmetallic minerals (except fuels).

Because the mining industry's physical output is storable, a decline in demand often leads to dramatic cuts in production and employment. During 1982, oil and gas extraction fell 10.4 percent, while coal and other mining production fell 13.2 percent. Employment in this industry fell only 0.7 percent, however.

Oil and gas extraction are expected to decline 0.6 percent in 1983, because of a 0.3 percent drop in crude oil prices. Meanwhile, output of the remaining extractive industries, including coal, will increase only 0.2 percent.

Employment in the mining sector will fall 2,000 in 1983; most of this loss will be concentrated in oil drilling. Real plant and equipment investment will drop for the second consecutive year, to $6.9 billion.

Agriculture

Dairy and grain products, poultry and eggs, livestock, fishing and forestry products.

A bumper crop, record carryover stocks from previous years, and weaker than expected U.S. and world economies are the dominant factors depressing the agricultural outlook for the year ahead.

Federal policy for 1983 will be directed at cutting back production to reduce the carryover crops. In 1982, over 70 percent of the base acreage was signed up for the feed grain reduced-acreage program—RAP—making its owners eligible for crop loans; however, it is estimated only 25 percent complied by reducing production. The 1983 farm program is designed to reduce acreage even more. It calls for a 10 percent RAP and an additional 10 percent in paid diversion for feed grains, and 15 percent RAP and 5 percent paid diversion for wheat.

International

Imports and exports of raw materials, intermediate and final products, including agricultural produce, manufacturers, business and consumer services, foreign travel and military hardware.

Exports as a percentage of the U.S. gross national product have almost doubled since 1970, reaching 12.5 percent in 1981 before declining to about 12 percent last year. However, during that period the U.S. share of free-world exports fell from 15.4 percent to 13 percent, indicating that the nation has not kept pace with the expansion of world trade.

It is unlikely that U.S. exports will experience significant growth in 1983.

Since 1980, the dollar has appreciated 25 percent on a trade-weighted basis. This appreciation has caused a shift in the U.S. trade balance for manufactured goods from a surplus of $11.8 billion in 1981 to a deficit for the last quarter of 1982.

The most important factor behind continued strength of the dollar is that investors regard the United States as a safe haven for their currency. The capital inflow for 1981 was $21.3 billion, triple the $7.6 billion of 1980.

Wholesale and Retail Trade

Trade in durable and nondurable goods, merchandise stores, food stores, automotive dealers, apparel, furniture, and eating and drinking places.

The wholesale and retail trade sector

PHOTO: J.P. LAFFONT—SYGMA

More farmers are likely to see their assets auctioned off this year, as American agriculture remains a victim of its phenomenal ability to deliver the goods.

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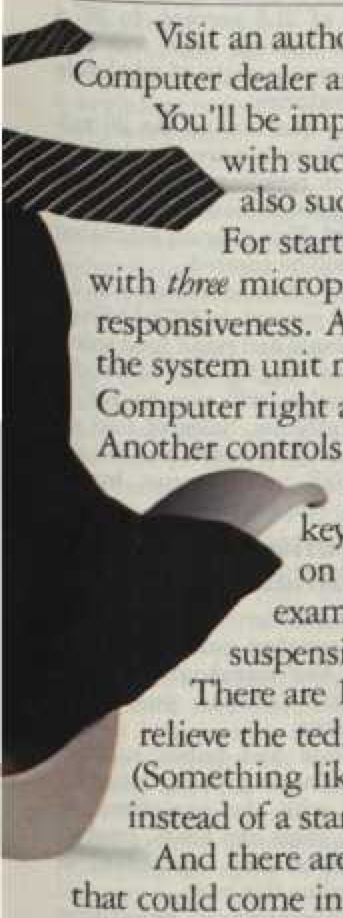

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Wholesale and Retail Trade

	Levels			Annual Percent Change		
	1981	1982	1983	1981	1982	1983
Consumption (In billions of 1972 dollars)						
Durables	140.0	138.7	155.1	2.2%	−1.0%	11.9%
Furniture, etc.	61.6	59.1	62.3	2.4	−4.0	5.4
Motor vehicles and parts	54.2	55.4	67.4	0.8	2.2	21.6
Other[1]	24.3	24.1	25.4	4.8	−0.7	5.3
Nondurables	362.4	365.5	373.4	1.8	0.9	2.2
Clothing and shoes	82.7	84.4	88.2	6.1	2.1	4.4
Food	181.4	184.0	187.5	0.7	1.4	1.9
Fuel oil and coal	3.5	3.2	3.2	−14.4	−7.9	−0.3
Gasoline and oil	25.7	26.6	26.1	0.1	3.7	−2.0
Other[2]	69.1	67.3	68.5	1.7	−2.6	1.7
Implicit price deflators (1972 = 1.00)						
Durables	1.67	1.75	1.81	7.2	4.4	3.5
Furniture, etc.	1.52	1.57	1.60	5.7	3.5	2.0
Motor vehicles and parts	1.82	1.91	1.98	9.1	5.0	3.5
Other[1]	1.75	1.82	1.88	6.3	3.8	3.3
Nondurables	2.03	2.09	2.16	7.6	3.0	3.5
Clothing and shoes	1.38	1.41	1.45	3.1	2.1	2.6
Food	2.07	2.16	2.24	8.4	4.5	3.5
Fuel oil and coal	5.72	5.59	5.74	21.4	−2.3	2.7
Gasoline and oil	3.77	3.52	3.63	11.3	−6.5	2.9
Other[2]	1.85	2.00	2.14	8.6	7.8	7.1
Wholesale price index— Industrial commodities	3.04	3.12	3.27	10.7	2.7	4.7
Employment (In millions)	20.55	20.60	20.99	1.2	0.2	1.9
Final sales (In billions of 1972 dollars)	1502.6	1480.3	1533.0	1.9	−1.5	3.6
Disposable income (In billions of 1972 dollars)	1043.1	1054.0	1087.6	2.5	1.0	2.9
Consumer sentiment index* (1966:1 = 100)	70.7	67.6	78.7	9.7	−4.4	16.6

[1] Ophthalmic products, orthopedic appliances, wheel goods, durable toys, sports equipment, boats, etc.
[2] Tobacco products, toilet articles, stationery, cleaning supplies, etc.
* A measure of consumer attitude toward buying.

PHOTO: J.P. LAFFONT—SYGMA

Stronger new car sales—sparked by lower interest rates—should give used car dealers more to sell when consumers trade the old flivver for something spiffier.

will be the immediate beneficiary of the anticipated 3.7 percent rise in constant-dollar consumer spending in 1983. In relative terms, durable goods wholesalers and retailers will benefit most. Rising incomes, lower interest rates on consumer credit and an increase in home building will boost spending for furniture by 5.4 percent in real terms, to $62.3 billion. Sales of motor vehicles and parts will register a substantial real increase of 21.6 percent, to $67.4 billion. Lower interest rates will also reduce the carrying costs of wholesale and retail inventories.

About three quarters of the 20 million jobs in this sector are in retailing. Employment in retailing has increased steadily, but growth slowed to only 0.2 percent in 1982. This year an estimated 396,000 jobs will be created.

Consumption of nondurables will increase only 2.2 percent, to $373.4 billion, in 1983. Wholesale and retail food sales, which comprise roughly half of nondurable goods sales, will rise to $187.5 billion after inflation. Sales of fuel oil and coal, as well as gasoline and oil, are projected to fall, in real terms, by 0.3 and 2 percent, respectively.

Transportation and Public Utilities

Air, rail and water transportation, local and interurban passenger transit, trucking and warehousing, pipelines (except natural gas) and communications.

Transportation and public utilities should benefit from a growing economy in 1983, but with the exceptions of trucks, buses, ships and boats, production of transportation equipment is forecast to decline this year.

Rail transportation is benefiting from rising energy prices—particularly for petroleum—and deregulation. Railroads are more fuel-efficient than trucks for long hauls, and greater freedom in rate setting allows them to exploit this advantage. Also, higher oil prices have caused many former oil users to switch to coal, which is hauled mostly by rail.

The recession has had a devastating effect on airlines that expanded too rapidly as a result of deregulation. Even surviving air carriers have had to engage in vigorous fare competition to attract passengers. Increased demand for air travel and moderation in fuel cost increases should help this sector.

Real expenditures for plant and equipment by rail and air carriers are forecast to fall $170 million and $310 million, respectively. Rail companies will spend about $2 billion after inflation; air carriers will pay out almost $1.3 billion in real dollars.

Despite the severity of the 1981-82 recession, public utilities—electric, gas, water and sanitation—produced 0.3 percent more in 1982 than in the previous year. In 1983 this industry's output will rise another 1.4 percent, as business and household formation pick up. As a group, utilities will spend $20.6 billion (after inflation) for plant and equipment in 1983, $810 million less than in 1982.

Taken together, the transportation and public utilities industries will employ 1,080,000 fewer people next year. A significant number of the lost jobs will be in the rail industry, which is becoming increasingly mechanized and is beginning to free itself from anachronistic work rules.

Services

Personal services (laundry, hair care, cleaning, etc.), business services (advertising, data processing, etc.), auto repair, recreation, health and legal services.

Whereas 1982 was a disappointing year for mining and manufacturing, real purchases of consumer services actually increased at a somewhat higher rate than in 1981. This year, spending for consumer services is expected to increase in real terms by 2.4 percent, to $464 billion. The largest increase—$4 billion—will be for housing services.

Consumers in 1983 will face steep price increases for electricity and for natural gas—percentage increases of 7.9 and 13.9, respectively. Households will reduce their purchases of natural gas by 1.2 percent in real terms; spending for electricity will rise 1 percent.

Health services now account for almost 30 percent of the value of service sector output. Demographic factors—principally the aging of the U.S. population—virtually guarantee that this industry will continue to grow.

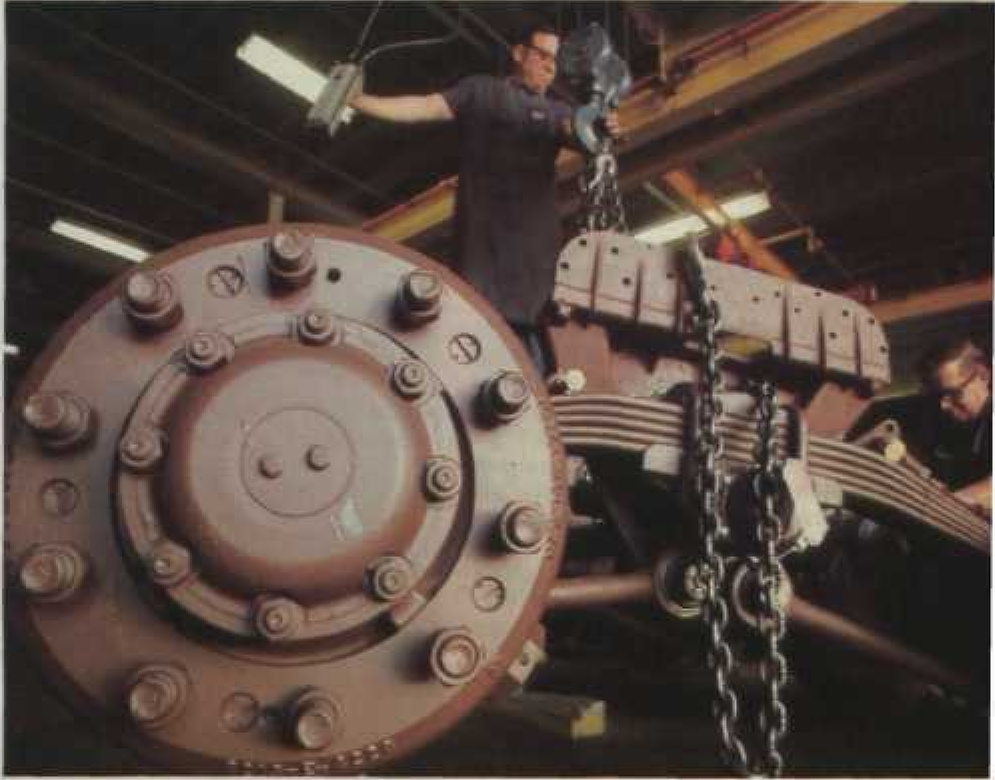
Business services, including advertising, data processing, and architecture and engineering, will also be in greater demand as the economy improves.

Segments of the financial sector—real estate, and savings and loans—experienced hard times in 1982 because of their heavy involvement in the housing market. In 1983, lower mortgage rates will stimulate the housing market and improve earnings in these two industries. Demand for commercial loans will also pick up.

The service and financial sectors combined will employ 645,000 more people in 1983 than in 1982. Of these jobs, 131,000 will be in the financial sector and 514,000 in services. An even greater rise in the number of service and financial employes—869,000—is projected for 1984. □

To order reprints of this article, see page 58.

PHOTO: KEN WHITMORE—IMPACT



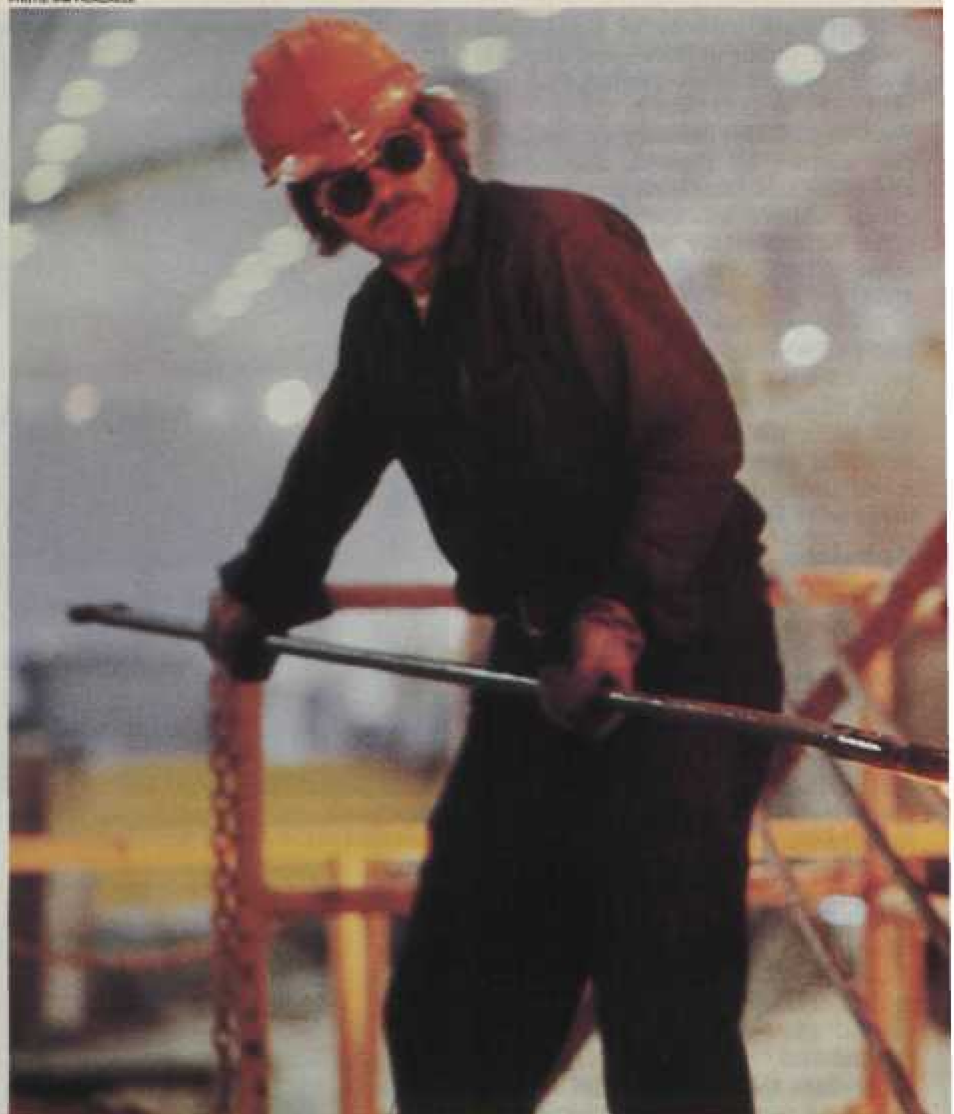
Truck production will be among the few manufacturing operations to benefit from increased activity in the transportation industry as economic growth resumes.

Services

	Levels			Annual Percent Change		
	1981	1982	1983	1981	1982	1983
Output (1967 = 1.00)						
Business services	1.71	1.74	1.79	2.0%	1.8%	2.6%
Consumer services	1.55	1.57	1.62	1.7	1.4	3.4
Employment (In millions)	18.6	19.0	19.5	3.9	2.2	2.7
Consumption						
(In billions of 1972 dollars)	445.2	453.3	464.0	1.7	1.8	2.4
Household operation	63.5	63.6	64.8	3.1	0.2	1.9
Electricity	18.3	18.1	18.3	6.0	−0.8	1.0
Natural gas	6.4	6.2	6.1	−2.5	−3.2	−1.2
Other[1]	38.8	39.3	40.4	2.8	1.3	2.7
Housing[2]	162.6	165.5	169.5	1.9	1.8	2.4
Transportation[3]	32.4	32.7	33.5	−4.9	0.8	2.5
Other[4]	186.8	191.4	196.1	2.4	2.5	2.5
Implicit price deflators (1972 = 1.00)						
Household operation	2.03	2.24	2.43	11.9	10.5	8.2
Electricity	2.47	2.72	2.94	15.0	10.1	7.9
Natural gas	3.38	4.01	4.57	13.5	18.8	13.9
Other[1]	1.60	1.74	1.87	9.6	9.0	7.2
Housing[2]	1.82	1.96	2.09	9.0	8.0	6.7
Transportation[3]	2.02	2.15	2.26	9.4	6.5	6.2
Other[4]	2.06	2.23	2.41	9.8	8.6	8.0

[1] Includes water and sanitation, telephone and telegraph domestic service.
[2] Includes owner-occupied nonfarm dwellings (space rent), tenant-occupied nonfarm dwellings (rent) and rental value of farm dwellings.
[3] Includes user-operated transportation, purchased local transportation (transit systems and taxis) and purchased intercity transportation (railway, bus and airline).
[4] Includes personal care, medical care, personal business, recreation, private education and research, religious and welfare activities, and net foreign travel.

PHOTO: JIM PICKERELL



Protectionist Peril

It's a dangerous time for free international trade. A key battleground: specialty steel.

By Seth Kantor

LATE LAST YEAR, President Reagan decided it was time for the United States to get serious about steel imports. He ordered an "expedited" investigation of how foreign governments are subsidizing their exports of specialty steel.

In effect, the President fired a shot across the bows of America's trading partners, warning them that trouble is ahead if they persist in unfair practices. Many members of Congress want to go much further—they want to enact some of the most blatantly protectionist bills to have received serious consideration in many years.

This is one of the most dangerous times for free trade since World War II. Protectionist pressures are strong both in the United States and abroad. Foreign governments are not just subsidizing exports, they are raising barriers to imports from the United States and other countries.

France, for example, imposes a value-added tax of 33.3 percent on each sale of an imported car. In addition, France limits Japanese imports to just 2.5 percent of France's automobile market.

Japan has no such open restrictions on imported cars, and it levies no tariffs on them. But Japan does have a domestic commodity tax on cars, based on size and weight; the tax adds as much as 20 percent to the prices of what the Japanese call "luxury" cars, most of which happen to be American.

Japanese law further discourages sales of American autos by allowing dealers a higher profit margin on such cars than is permitted on other makes.

But, for the moment, specialty steel is a major battleground, and the outcome of this particular struggle could affect trade in autos and many other goods. If a U.S. campaign on specialty steel is successful, the same tactics may be applied elsewhere.

Specialty steel—the term includes stainless steel and rustless iron—is used to make a great variety of things, from roller bearings and rifle barrels to ships and nuclear power plants.

Domestic consumption of specialty steel has been declining since 1980 because of the recession. But foreign competitors—subsidized by their governments—have been taking more and more of what is left of the American market, selling their steel at prices that domestic producers cannot match.

The Office of the U.S. Trade Representative—a White House agency responsible for overall U.S. trade policy—made its own investigation of steel subsidies last year, and it concluded that eight steel-exporting countries were violating international trade agreements. (Japan and West Germany, two of the leading steel producers, were not among the violators.)

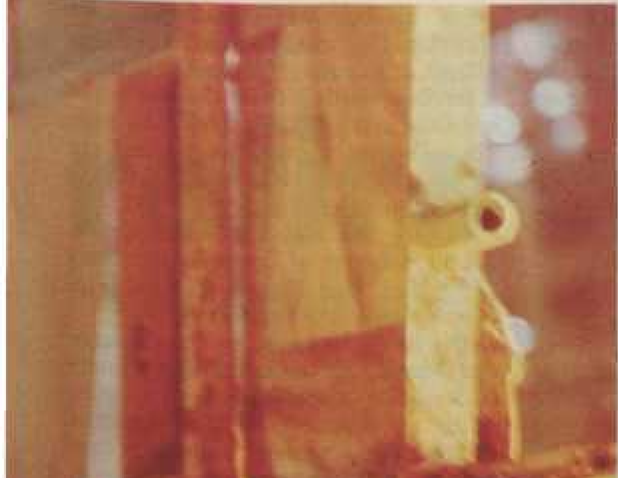
For example, the Austrian government has provided grants to keep specialty steel production going there. Sweden has also propped up its steel industry with grants, in addition to preferential loans and loan guarantees.

According to Charles H. Blum, director of steel trade policy for USTR, specialty steel plants are being operated at a loss in several of the principal exporting countries. Even so, Blum says, "there are elaborate plans for expansion of these plants."

He adds: "It does not make a lot of sense to let a competitive industry in the United States be crippled in this manner by foreign interests."

SPECIALTY STEEL production in the U.S. may indeed be crippled. Unemployment has been running at 40 percent in the industry. (The largest plants are in western Pennsylvania and Buffalo, N.Y., and there are others in Connecticut, Ohio and Kentucky.)

In a memorandum ordering an inves-



Free trade besieged: Imports threaten U.S. steel plants while countries like Japan raise bars to U.S. exports.

PHOTO: ENI MIYAZAWA—BLACK STAR

tigation by the U.S. International Trade Commission, President Reagan said that "if we are ever to put an end to constant trade disputes in steel," the United States has to "begin a coordinated approach to the problem."

The ITC monitors foreign trade for the President and Congress, and it can recommend restrictive action—higher tariffs, import quotas and the like—when imported goods threaten domestic industries. But, as the President warned in his memorandum, an ITC ruling against offending foreign steel companies "can be rendered meaningless by a substitution of new foreign suppliers for those whose shipments are affected."

In other words, some foreign governments might change the names of the players, but the game would go on. To keep that from happening, the President called for joint action by the ITC and U.S. Trade Representative William Brock, "aimed at the elimination of all trade-distortive practices in the specialty steel sector" throughout the world.

To carry out the President's directive, Brock will open talks with foreign countries that are violating international trade agreements through their steel subsidies. The ITC will consider recommending to the President that he provide relief from the steel imports, perhaps in the form of higher tariffs or import quotas. The President may not wish to accept the ITC recommendation, but Congress can pass a concurrent resolution requiring him to do so.

In other words, the President has adopted a carrot-and-stick approach. He is encouraging the offending nations to negotiate with Brock's office and agree to withdraw their subsidies voluntarily before the ITC recommends punitive action. The United States' hand will be stronger in the negotiations because of the foreign governments' awareness that Congress, in its present mood, would very likely override any Reagan decision against adopting ITC-recommended sanctions.

Even so, the President issued his statement on specialty steel only after a tug-of-war behind the scenes in the White House. Brock wanted the President to issue a hard-hitting statement after his office concluded its investigation last October 26, but he encountered opposition within the administration.

Brock sought support from other members of the President's Council on Economic Affairs, made up of eight officials of cabinet rank, and according to one White House aide, winning such support was "an uphill struggle."

Reportedly, some members of the council felt that America's trading partners were being used as scapegoats and that the domestic steel industry's problems were caused more by the recession than by unfair foreign competition. But eventually Brock prevailed.

That he did is not particularly surprising, given the current protectionist sentiment on Capitol Hill and the administration's desire not to lose control of trade policy to Congress.

DOZENS OF trade bills—most of them with a strong protectionist flavor—were introduced in the 97th Congress, and many more can be expected in the 98th Congress when it convenes this month. One major proposal will again be a reciprocity bill—sponsored by Sen. John Danforth (R-Mo.)—that would in effect put foreign governments on notice that they can expect the United States to retaliate for any restrictions imposed on imports of U.S. goods. Another will be the so-called domestic content bill that is backed by many liberal Democrats.

As it was introduced in the 97th Congress, the content bill would have required that cars exported to the United States contain specified percentages of American parts and labor. For Toyota, the Japanese manufacturer that exports more cars to the United States than any other company, the requirement would have been 90 percent American content (NATION'S BUSINESS, October, 1982).

The content bill had 224 sponsors in the House of Representatives last year—more than enough for passage—but not a majority in the Senate.

Chief among supporters of domestic content legislation is former Vice President Walter Mondale, a probable Democratic candidate for President in 1984. Like a number of other Democrats, Mondale has been riding protectionism hard as an issue that he thinks works for him and his party and against the Reagan administration.

(Democratic pollster Peter D. Hart says that 73 percent of voters he sampled in the Midwest shortly before last November's elections were in favor of protectionist legislation like the domestic content bill. There is a strong backlash against the Japanese, Hart says.)

"In agriculture, computers, telecommunications, petrochemicals and other areas," Mondale says, "many American products are of better quality and lower price. But they are being frozen out of overseas markets by quotas and nontariff barriers. . . .

"This isn't free trade, and it isn't fair trade. We have to make it clear to our

competitors that we no longer tolerate it. The time has come to shape a national policy that fights back and gives American workers a fair shake in world markets."

Mondale has lent himself to an emotional campaign for the content bill, orchestrated by organized labor. AFL-CIO official Ray Denison says that "more than 1 million auto jobs have been affected by imports, and the number is rising sharply."

U.S. auto companies are much more skeptical of the need for a content law. Ford Motor Company Chairman Philip Caldwell would prefer that the Japanese continue the voluntary restraints on their exports that have been in place for the last two years.

Caldwell also says that it would be better for Japanese producers to begin building autos in America voluntarily, with American workers, instead of being ordered by law to come here.

Observers who agree with Caldwell warn that protectionist barriers like a tough domestic content bill could touch off international trade wars aimed at U.S. exports. They warn that the United States could lose more jobs in export industries than it gained in the automobile industry.

In a sort of preview of what such trade wars could be like, the European Common Market has refused to cut protective subsidies to agriculture in several nations—much to the consternation of American farmers, who can't continue to compete at a loss against below-market prices overseas.

"We can't stand by and see our farmers disappear," says a frustrated Sen. Robert Dole (R-Kans.), chairman of the Senate Finance Committee. "So, while no one wants to start a trade war . . . I'm not sure we can avoid it. We're up against economic and political realities."

Meanwhile, labor insiders report that AFL-CIO officials have begun having serious second thoughts about the content legislation. The AFL-CIO is still expected to support the content bill in the new Congress, but it may be considerably milder—and thus less of a threat to U.S. trade—than last year's version.

That is not to say that hard-line protectionist measures will not be pushed in Congress this year. For example, Sen. Donald W. Riegle (D-Mich.) is supporting the Danforth reciprocity legislation, but he is talking of proposing amendments that would make the bill far more protectionist than it is now.

Danforth, on the other hand, says that his purpose in sponsoring the bill is to promote fair trade. "Free trade is a myth in today's world," he says, "and fair trade is the goal worth pursuing."

As is true of many members of Congress, his interest in trade has been stimulated by what he sees as the local effects of imports. "Missouri has taken a terrible beating from the decline of our shoe and auto industries," he says. "In each case, imports contributed significantly to the conditions that put Missourians out of their jobs."

Despite the high protectionist tide, not all members of Congress are going along. Sen. Max Baucus (D-Mont.), for one, is opposed to Danforth's bill.

The 1980s, he says, are "the dangerous decade," for economic and military reasons. The world economy "is undergoing profound and fundamental change. New higher technology and service industries are growing; older industries are under challenge. Industrial, communist and developing-nation economies are in deep trouble. Trade tensions are rising accordingly."

Baucus says that a reciprocity bill would send "different signals to different people," creating "subtle dangers of misunderstanding." That is, the reciprocity legislation, if passed, could easily be interpreted by the United States' trading partners as an expression of hostility, rather than an effort to redress an imbalance.

Such attention to nuances may be in short supply in Congress this year, but it may well be necessary if the web of world trade is not to be torn asunder. □

Japanese Motorcycles: Mean Machines ?

". . . You can be the queen of the highway, my motorcycle mama. We'll see the world from my Harley."

So went the words in a popular country-and-western song of the 1960s as leather-jacketed easy riders kicked up dust across America on their glamorous Harley-Davidson "74s," a motorcycle model they wrote sentimental songs about.

But now all that glamour is being driven out of business by foreign imports, say the people at the Harley-Davidson Motor Company.

The privately held firm, begun in a backyard shed in Milwaukee by William Harley and the three Davidson brothers in 1903 (a tomato can served as carburetor on the first model), prospered and became the only U.S. builder of motorcycles by the middle of the 20th century.

Imitative imports from Japan—built by Honda, Yamaha, Kawasaki and Suzuki—are taking over the American market, according to a complaint filed by Harley-Davidson with the U.S. International Trade Commission.

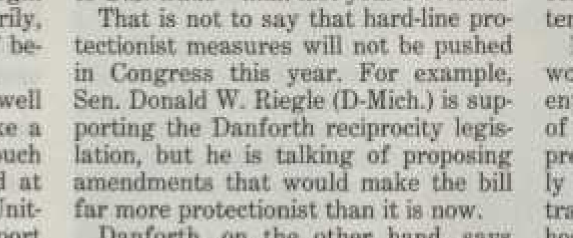


PHOTO: HARLEY-DAVIDSON MOTOR COMPANY

Once king of the road, Harley-Davidson now feels threatened by Japanese motorcycles, some of them made by U.S. workers in Honda's Ohio plant.

PHOTO: HONDA CORPORATION

Forty percent of Harley's employes have been laid off, and the company is seeking federal intervention to curtail imports. Only such action, it says, will keep it from folding.

Late in November the four Japanese manufacturers filed a brief claiming that Harley-Davidson sales increased after the foreign competition began. Two of the Japanese firms have built plants in Nebraska and Ohio and employ a total of 600 Americans, the brief says.

Harley-Davidson countered that the Japanese have stored away large inventories of motorcycles and are planning a price war.

The ITC is expected to hand down a ruling early this year.

when I planned to
retire before fifty

this is the business that made it possible

a true story by John B. Haikey

Starting with borrowed money Duraclean gave me the opportunity for financial security... In eight years I sold out at a profit and retired.

"Not until I was forty did I make up my mind that I was going to retire before ten years had passed. I knew I couldn't do it on a salary, no matter how good. I knew I couldn't do it working for others. It was perfectly obvious to me that I had to start a business of my own. But that posed a problem. What kind of business? Most of my money was tied up. Temporarily I was broke. But, when I found the business I wanted I was able to start it for a small amount of borrowed money.

"To pyramid this investment into retirement in less than ten years seems like magic, but in my opinion any man in good health who has the same ambition and drive that motivated me, could achieve such a goal. Let me give you a little history.

"I finished high school at the age of 18 and got a job as a shipping clerk. My next job was butchering at a plant that processed boneless beef. Couldn't see much future there. Next, I got a job as a Greyhound Bus Driver. The money was good. The work was pleasant, but I couldn't see it as leading to retirement. Finally I took the plunge and went into business for myself.

"I managed to raise enough money with my savings to invest in a combination motel, restaurant, grocery, and service station. It didn't take long to get my eyes opened. In order to keep that business going my wife and I worked from dawn to dusk, 20 hours a day, seven days a week. Putting in all those hours didn't match my idea of independence and it gave me no time for my favorite sport—golf! Finally we both agreed that I should look for something else.

"I found it. Not right away. I investigated a lot of businesses offered as franchises. I felt that I wanted the guidance of an experienced company—wanted to have the benefit of the plans that had brought success to others, plus the benefit of running my own business under an established name that had national recognition.

"Most of the franchises offered were too costly for me. Temporarily all my capital was frozen in the motel. But I found that the Duraclean franchise offered what I had been looking for.

"I could start for a small amount. You can start a dealership for as little as $3,488. Another option is a $11,588 full cash investment, and if you qualify, Duraclean can work out financing for half this amount. I could work it as a one-man business to start, and operate from my home. No office or shop or other overhead, no salaries to pay. Equipment would fit in my car trunk. (I bought the truck later, out of profits.) Best of all, there was no ceiling on my earnings. I could build a business as big as my ambition and energy dictated. I could put on as many men as I needed to cover my volume. And I could build little by little, or as fast as I wished.

"So, I started. I took the wonderful training furnished by the company. When I was ready I followed the simple plan outlined in the training. During the first period I did all the service work myself. By doing it myself, I could make much more per hour than I had ever made on a salary. Later, I would hire men, train them, pay them well, and still make an hourly profit on their time that made my idea of retirement possible—I had joined the country club and now I could play golf whenever I wished.

"What is this wonderful business? It's Duraclean. And, what is Duraclean? It's an improved, space-age process for cleaning upholstered furniture, rugs and tacked down carpets. It not only cleans but enlivens and sparkles up the colors. It does not wear down the fiber or drive part of the dirt into the base of the rug as machine scrubbing does. Instead it *lifts out* the dirt by means of an absorbent dry foam.

"Furniture dealers and department stores refer their customers to the Duraclean Specialist. Insurance men say Duraclean can save them money on fire claims. Hotels, motels, specialty shops and big stores make annual contracts for keeping their carpets and furniture fresh and clean.

"Well, that's the business I was able to start with such a small investment. That's the business I built up over a period of eight years. And, that's the business I sold out at a substantial profit before I was fifty."

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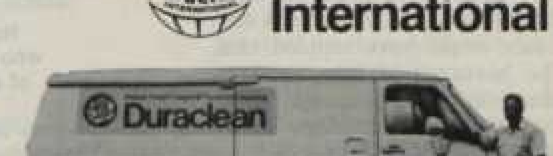

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THE REAGAN PRESIDENCY:

A Pattern Of Significant Change

WE COME NOW to the end of the first two years of Ronald Reagan's presidency. The 97th Congress has limped off the field; the 98th is trotting out of the locker room. It is an appropriate time for the business community to have a look at whither we have been and whither we are going. The second half, unless I am vastly mistaken, will be tougher than the first.

These have been two good years, politically speaking, for American business. (Economically speaking, the two years have been lousy, but let us table a motion to talk of corporate profits.) Think back, if you will, to the elections of 1980. It is a rare event in our political history that sees anything approaching a "mandate" from the voters, but we saw one then.

This mandate was not to be discerned in Reagan's victory over Jimmy Carter. Such was the popularity of the unfortunate gentleman from Georgia that almost any Republican candidate could have toppled him. The hostages in Iran were an issue; inflation was an issue; Carter's indecisive image was an issue. Who could trust a man who decides, at age 55, to change the part in his hair?

PHOTO: MICHAEL EVANS—SYGMA

President-elect Reagan got off to a fast start after his victory in November, 1980, meeting in his Washington transition office with the three men who were to become his top advisers. From left, they are James A. Baker III, chief of staff; Edwin Meese III, counselor, and Michael K. Deaver, deputy chief of staff.

Carter seemed unable to lead; on Capitol Hill his own party proved unwilling to follow. And then, too, Reagan ran a bang-up campaign. In the end, Carter was skunked; he carried six states and the District of Columbia. Reagan swept all the rest. But the presidential outcome, important as it was, carried no clear ideological message.

There could be no mistaking the message left by returns from the Senate contests, however. With the sole exception of Connecticut's seat, every Senate seat that changed hands changed in a more conservative direction. Some of the Senate's most liberal members fell—Birch Bayh in Indiana, Gaylord Nelson in Wisconsin, Frank Church in Idaho, George McGovern in South Dakota, John Culver in Iowa.

If this was not a revolution, it was something very close to it. The Republicans took control of the Senate; they took over the committee chairmanships; they named their committee staffs. There is no rational way to pooh-pooh this phenomenal upheaval. Taken in conjunction with the Reagan victory, the Senate returns spoke volumes. It was the clearest mandate for change since Franklin Roosevelt licked Herbert Hoover in 1932.

And we have indeed seen change in these past two years.

Reagan defined his program of economic recovery in several ways. He wanted to reduce the total burden of federal taxation. He wanted to attain a stable monetary policy. He wanted to eliminate some of the regulatory red tape in which business has been strangled. His hope was that this combination would revitalize the economy and generate new revenues that would more than offset the loss of revenues resulting from the lower tax rates.

The operation was a success, but the patient hasn't recovered. Congress gave the President most of what he asked for. As a percentage of national income, the federal tax burden has been reduced. Tight monetary policies have indeed favorably affected the rate of inflation. Many excessive regulations have been eased. Through the Budget Reconciliation Act, entitlement programs have been curbed. Interest rates

The economy hasn't recovered yet, although the operation was a success. Nevertheless, there's no sign that America wants a return to liberals' remedies.

By James J. Kilpatrick

OTO: CHARLES STEINER—SYGMA

After a June, 1981, meeting with the President on the budget, Rep. Thomas P. O'Neill (D-Mass.), House Speaker, talks to the press in front of the White House. O'Neill, a strong opponent of Reagan's fiscal policies, has been unable to prevent some House Democrats from voting for administration proposals.

have been forced down. However, the doldrums persist, and the prospect of a balanced budget grows steadily more remote. Anticipated deficits for 1983 and 1984 will dominate the capital market; the private sector will be scrambling for what is left.

STILL, THE PATTERN of significant change is now fixed, and these past two years have witnessed other changes. Among them is a palpable shift in attitude at executive agencies.

This can be seen clearly at the Occupational Safety and Health Administration, under Thorne Auchter; at the Environmental Protection Agency, under Anne Gorsuch; at the Interior Department, under James Watt; at the Federal Trade Commission, under James C. Miller. We see new attitudes at the Federal Communications Commission and the Consumer Product Safety Commission. The Justice Department has replaced the zeal of social reformers with a commonsense policy of law enforcement.

In one of the Sherlock Holmes stories, the key element was that the dog didn't bark. Nothing had happened. We find a similar situation in considering the 97th Congress—political things that were not done and in many cases were not even attempted.

In the pre-1980 era, for example, one of the great liberal causes on Capitol Hill was a program of federally regulated no-fault automobile insurance. That issue is as dead as the Hupmobile, the Essex and the Nash.

In the 96th Congress, Democratic leaders pushed hard for national health insurance; such proposals were not even discussed in the 97th. Organized labor formerly was seeking reorganization of the National Labor Relations Board, effective repeal of the Hatch Act and a nationwide scheme of postcard registration for voting. Gone, all gone. Liberal pressure groups wanted a new consumer protection agency. It was a lost cause in Reagan's first Congress.

This is not to suggest that liberal forces on the Hill were entirely impotent over these past two years. Of course not. Reagan got nowhere in his efforts to abolish the Departments of Energy and Education. The Republican platform had called for repeal of the Davis-Bacon Act, which effectively mandates union wage scales on large federal projects, but even the reconstituted Senate would not respond. The President couldn't win his first-year tax cut of 10 percent; he had to settle for 5 percent instead.

Yet even the President's defeats, more often than not, were partial defeats. Reagan wanted to abolish the Consumer Product Safety Commission; Congress voted instead to reauthorize the CPSC for a few more years, but to keep it on a tight leash.

Looking back at the first half of the Reagan term, we see the pattern of change most clearly in the things that were in fact achieved. For a prime example, consider the Economic Recovery Tax Act of 1981 (Public Law 97-34). This was the act that gave the business community its accelerated cost recovery system, fixing new depreciation schedules. The act created new benefits for small business; it provided for carryover of unused tax credits; it set up incentives for additional research and development; and of course it reduced

The First Two Years: A Pictorial Record

PHOTO: WHITE

Inauguration Day in January, 1981, introduced a new President—and he brought with him a conservative fiscal policy. It was described in terms that were soon familiar to most Americans: supply side, New Federalism, Reaganomics.

PHOTO: J.T. OWEN—BLACK STAR

Released from the hospital in April, 1981, after an assassination attempt outside a Washington hotel, the President returned to the White House and a part-time schedule during recuperation. Would-be assassin John Hinckley, who intended to impress an actress, was judged insane.

PHOTO: DENNIS BRACK—BLAC

A skilled communicator, President Reagan presented his economic program to Congress in April, 1981. His televised speeches—before Congress and directly to the people—generated tremendous grass-roots enthusiasm for his ideas and encouraged Congress to pass them.

America and its allies have sometimes disagreed over defense and trade policies. Those differences were aired in June, 1982, when Reagan met at Versailles, France, with Free World leaders.

PHOTO: DENNIS BRACK—BLACK STAR

Keeping up links to business, the President met in April, 1982, with U.S. Chamber of Commerce leaders (from left) Richard L. Lesher, Paul Thayer and Donald M. Kendall. Thayer has since been named deputy secretary of Defense.

PHOTO: KEN GARRETT

PHOTO: J.L. ATLAN—SYGMA

President Reagan's first two years in office have been plagued by unemployment in the auto and steel industries and by declining farm income. To explain the administration's program and win over disenchanted farmers, he and Agriculture Secretary John R. Block (at Reagan's right) went to Iowa in August, 1982.

PHOTO: MARY ANNE FACKELMAN—WHITE HOUSE

Following a Republican congressional caucus last November, the President, House Minority Leader Robert H. Michel and Senate Majority Leader Howard H. Baker, Jr., met the press.

actual tax rates on corporate income. Taken as a package, the act will reduce taxes on business by annual increments reaching $54 billion in 1986.

Yes, it is quite true that the tax act of 1982 took back a substantial part of the benefits that had been granted in 1981. The 1982 act put in motion a new and troublesome system of withholding on dividends and interest; it raised unemployment taxes; it played hob with defined benefit retirement programs; it canceled some of the depreciation write-offs; it made major reforms in the much-abused "safe harbor" leasing provisions of 1981.

Yet on balance, or so it seems to me, the 1982 changes have to be regarded as bearable changes. The tax increases were legislatively married to spending decreases. This was a compromise package, and not a gravely damaging package at that.

THE IMPORTANT TREND of these past two years appears plainly in such aspects as speed and direction. The Reagan program never envisioned a net cut in outlays; no informed person would have expected any such thing. What has happened is that Reagan's leadership has produced a startling change in the rate of increase.

We still will be pouring billions of dollars a year into such programs as food stamps, Medicaid, student loans, child nutrition, subsidized housing and aid to the arts, but in every instance the rate of increase has been significantly slowed. The course of legislative direction has changed; it no longer is seriously proposed to expand the bureaucracy or to create new areas of federal pre-emption of state responsibilities. The direction goes in the other way—toward a reduction in the regulatory burden, toward block grants instead of categorical grants.

Little of the Reagan record could have been set without the cooperation of conservative Democrats—the Boll Weevils—in the House. Notably in 1981, less so in 1982, the Republicans' own ranks held steady; but the Boll Weevils made the difference. Matters will be quite different in the incoming 98th Congress. The Boll Weevils will be back, but 26 Republicans won't be back, and assuming even a modicum of party solidarity under Speaker Thomas O'Neill, we can anticipate two years of impasse and stalemate.

The question has been kicked around for the past two months: Were the elections of 1982 a referendum on, and a repudiation of, Reagan's program of economic recovery? In my own view the answer is, plainly, no.

In some House districts where unemployment was high, yes, voters clearly registered their justifiable dissatisfaction. But my own reading tells me that overwhelmingly the Republicans' loss in the House can be explained by the familiar factors that influence every by-election: local issues, the personalities of the candidates, the vulnerability of first-termers. The Senate elections were an absolute wash—two Democratic seats lost in Virginia and Nevada, two Republican seats lost in New Mexico and New Jersey. A Republican succeeded a Republican in California, and elsewhere incumbents were re-elected.

The President thus retains his blocking power in the Senate, and by every indication he will need it. The 98th Congress will convene with at least 81 freshmen in the House—57 incoming Democrats, 24 Republicans. More than one fifth of the 243 Democrats thus will be rookies. If the economy makes its expected upturn, and the momentum is toward a booming recovery in the late summer of 1984, these first-termers will in turn be subject to the usual vulnerability. Meanwhile, we may witness a political regrouping that hasn't been seen for years: some semblance of party discipline among the Democrats.

If such a move toward party unity develops—and if it sticks—Reagan's troubles will be compounded. Recent years have seen congressional Democrats in something approaching total disarray. On the 1982 tax bill, 127 Democrats leaped the fences. The Democratic newcomers elected in 1982 are likely to demonstrate far greater allegiance to the Speaker's leadership. Few of these freshmen members may be fairly classified as flaming liberals, but most of them are simmering liberals who owe their election to organized labor and to ethnic minorities. They can be expected to oppose almost unanimously any further major reductions in the entitlement programs, and they surely will press for reductions in Reagan's defense budget.

The conservative mandate of 1980, in my own view, has been weakened, but it has not been rejected. The prolonged recession, with rising unemployment and diminishing corporate profits, plainly has taken its toll.

WE ARE AN IMPATIENT people, spoiled by a society wedded to instant gratification, and we are forever asking of our leadership: What have you done for us *lately?* Both interest rates and inflation rates have been halved, but these immense benefits are quickly forgotten.

The business community cannot expect much from the incoming 98th Congress, but there will be no major defeats, either. If business leaders have the good sense and quick wit they are widely presumed to have, they will look past the prospects for 1983 and begin focusing at once on the political situation in 1984, when the Presidency and 19 Republican seats in the Senate will be up for grabs. At the moment, 1983 promises little more than a tepid tale of three-up, three-down; in 1984, my brothers and sisters, it is the whole blessed ball game. □

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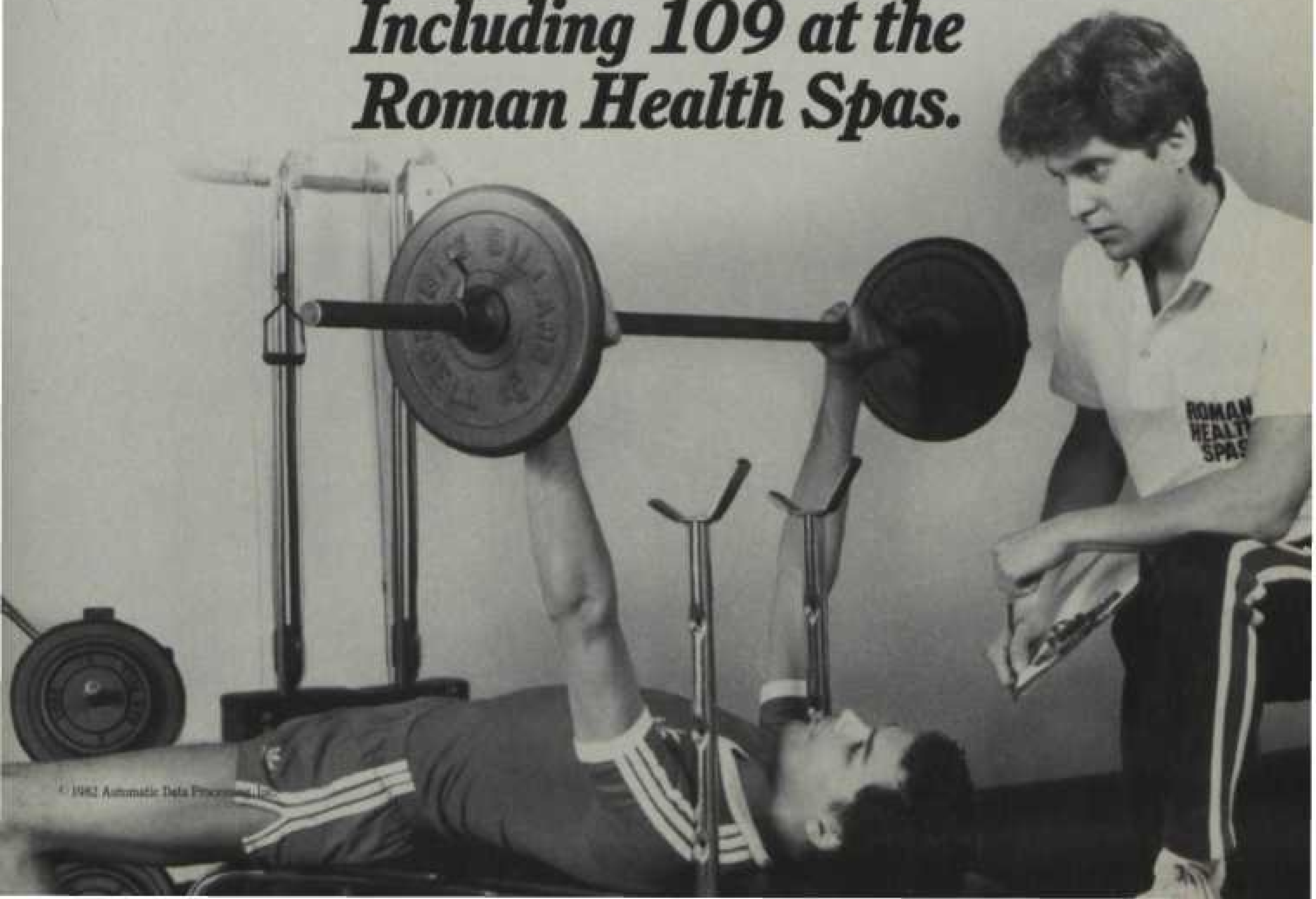


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Creating a Camera Is No Snap

By Henry Altman

YOU TEND to think of creators of new technology as scientific or mechanical types who perhaps were physics majors or tinkered with gadgets in garages in their youth. Not Jerry C. Nims.

Nims, 47, may carry the same 192 pounds on his 6-foot-1 frame that he did when he played varsity halfback at San Francisco State University, but his mind-set is far different. In college days he focused on people-oriented theory—he got a B.A. for completing an interdisciplinary course of philosophy, sociology, psychology and semantics. Today he focuses on product-oriented practicality.

Jerry Nims is co-creator with Allen K.W. Lo, 45, of the Nimslo three-dimensional camera. More, Nims is chairman and chief executive officer of Atlanta-based Nimslo International Ltd., whose sales, just beginning, topped $30 million in 1982. Nims predicts they will be six times that this year.

Time will tell whether the camera is a fad or a true success in the marketplace. But events have already shown Jerry Nims to be a true success at innovation, raising capital and, incidentally, amassing personal wealth—all on an international basis.

PHOTOS: NIMSLO INTERNATIONAL LTD.

Allen Lo, Jerry Nims and the Nimslo 3-D camera. The camera's lenses simultaneously record four half-frame images on two frames of film. A computerized printer makes the four images one.

The four-lens camera, which weighs 12 ounces, works with standard 35 mm. color negative film. Shooting half frames, it produces a thin photo that, unlike much 3-D of the past, gives you the impression of depth without your wearing special glasses. Nimslo processes the film—standard price is $15.50 for the 18 pictures a 36-frame roll makes. The camera lists retail at $269.95.

San Francisco-born Jerry Nims dreamed of such a camera while working out of Japan for Asahi, the conglomerate, as a commissioned packager and marketer abroad of new publishing concepts. (Example: "sight and sound" children's books that came with recordings.) Asahi's materials included 3-D pictures, which Nims felt were not good enough—"2½D," he says—and required a bulky camera and laborious film processing.

What was Nims doing in that line of work, and in Japan? He had thought about a career in psychology, but he had helped pay for his education by working part-time as a salesman, had found himself good at it and had shifted his sights to business. Single, traveling footloose around the world on the cheap, he stopped off in Japan, which had charmed him when he visited it as a serviceman. Asahi had an opening, and he talked his way in.

AFTER EIGHT YEARS with Asahi, Nims quit in 1970, determined to invent his dream camera. He settled in Atlanta—he had married an Atlanta girl he met on a business trip—and asked Lo, who was working on 3-D design for Asahi, to join him. Lo, an ethnic Chinese from Vietnam with a degree in structural engineering, agreed. Living "below the poverty line" in quarters supplied free by his father-in-law and paying Lo a small salary out of savings, Nims rented two rooms in a modest section. He "filled them with everything ever written about 3-D," he says, adding: "For four months Allen and I would go there early every morning and read all day."

Finally, they were ready to try making a camera. They chose a trial-and-error method—drawing a picture of what they wanted, making something that looked like it and seeing whether it worked. Because rents and labor were bargains in Hong Kong, they moved there. Plenty of error cropped up amid the trial, but in 1972 they were back in Atlanta with a camera, though it still needed further development.

Nims had gotten to Hong Kong on $200,000 raised from private investors, an average of $10,000 per investor. "I must have knocked on 50 doors before I heard a yes," he says. "I would call on someone who might be willing to invest and, when he turned me down, ask for leads." Now, with his 3-D camera more than just an idea, Nims raised another $1.8 million the same way.

But frustration lay ahead. There were six more years of trial and error. "Many times," Nims says, "I felt like surrendering." He did not, and one day the camera was ready.

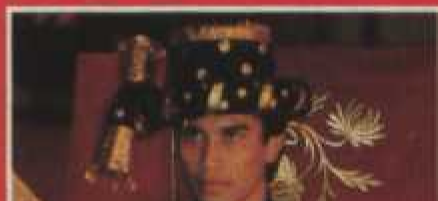
Nims went looking for money so that he could get into production. He found it in England—$23.4 million from British institutions. Then, in 1980, the Olsen Group, Norwegians who own the Timex watch company, bought a major interest in Nimslo. They paid "in the eight figures," Nims says guardedly. He became wealthy, and those Georgia investors—attorneys, doctors, a former governor—got as much as 20 times their money. In 1981, British institutions put another $46 million into the company.

Nimslo cameras, produced in Tokyo, Japan, and at Timex plants in Little Rock, Ark., and Dundee, Scotland, went on sale last March in Florida and are now sold in 40 states.

Jerry Nims, a Baptist minister's son who in off-hours is active in refugee relief work, says faith helped him through the trying times. He took a biblical verse as the "text for my life." The verse, Matthew 24:13, reads: "But he that shall endure to the end, the same shall be saved." □

MALAYSIA

Scenes from a nation on the move. Above: the capital, Kuala Lumpur.



An Exciting Climate For Investment

Population:
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Area:
Sq. Km. 330,000

Per Capita G.N.P.:
1980 $1620

Average Annual Rate of Inflation, 1970–1980: 7.5%

Average Annual Growth Rate: 1970–1980

Gross Domestic Product	7.8 %
Agriculture	5.1 %
Industry	9.7 %
Manufacturing	11.8 %
Services	8.2 %

Gross International Reserves:
1970–1980 $5.755 Billion

1980 Percentage of Labor Force:

Agriculture	50 %
Industry	16 %
Services	34 %

Source: *World Development Report* 1982
World Bank

MALAYSIA IS BASICALLY an agricultural country and its natural resources have long been the main planks of its economy. However, the Malaysian government's intention is to create, over the long term, a balance between natural resources development and manufacturing.

Since the 1970s, Malaysia has been working on a vigorous program of industrialization in an effort to establish itself as a manufacturer of semifinished and finished products for the domestic and export markets.

Initially, Malaysia's industrialization efforts were concentrated on the establishment of import-substitution industries. As opportunities in the import substitution sector became increasingly limited, emphasis was placed on the development of export-oriented industries. Existing manufacturers who initially produced only for the domestic market expanded their operations to cater to the export market as well. Their decision was to some extent influenced by the limited size of the domestic market, which consisted then of some 12 million people. Furthermore, thanks to increased competence and productivity it was an opportune time to venture into the foreign markets.

Two major measures were introduced in 1968. The Investment Incentives Act broadened the scope of fiscal incentives for industrial development, and another measure established the Federal Industrial Development Authority, now known as the Malaysian Industrial Development Authority. MIDA has been entrusted with the task of promoting and coordinating all industrial development activities in Malaysia. For foreign and local investors, MIDA has now become not only the first stop, or port of call, it has also become a one-stop agency that offers advice and assistance.

The success achieved in Malaysia's industrial development is reflected in the changing role played by the agricultural and manufacturing sectors in the Malaysian economy. In 1970 the agricultural sector contributed 30.8 percent (M$3.797 billion) to the gross domestic product while manufacturing accounted for 13.4 percent (M$1.650 billion). By 1980 agriculture's contribution to the GDP had declined to 22.2 percent (M$5.809 billion) while that for manufacturing had increased to 20.5 percent (M$5.374 billion). During this period 1.7 million new jobs were created; the manufacturing sector accounted for 416,000 or 24.5 percent.

The increasing importance of the manufacturing sector has placed it in a position to play a critical role in the future economic development of Malaysia. In the Fourth Malaysia Plan, the manufacturing sector will play an important role in achieving the nation's socio-economic targets.

By the end of the FMP period (1981-

Want to Know More?

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Chicago, Ill. 60611
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1985), the manufacturing sector is expected to overtake the agricultural sector to contribute 23.9 percent of the GDP, compared with 17.8 percent from agriculture.

The manufacturing sector is expected to grow 11 percent a year, compared with a targeted 3 percent growth in the agricultural sector. In terms of employment, the manufacturing sector is expected to generate 267,000 new jobs, representing a 5.9 percent increase during the period.

In order to achieve the various targets set out in the FMP, increased private sector investment is required. Of the total investment of M$102.639 billion to be made during the FMP period, M$74.111 billion or 72.2 percent is expected to come from the private sector. This compares to a private sector contribution of M$30.630 billion or 63.2 percent of total investment during the Third Malaysia Plan (1976-1980). Thus it can be seen that the private sector has been assigned a vital role in the Fourth Malaysia Plan.

Considering the importance of the manufacturing sector in the Fourth Malaysia Plan, the private sector's role in meeting the manufacturing objective of the FMP is equally crucial.

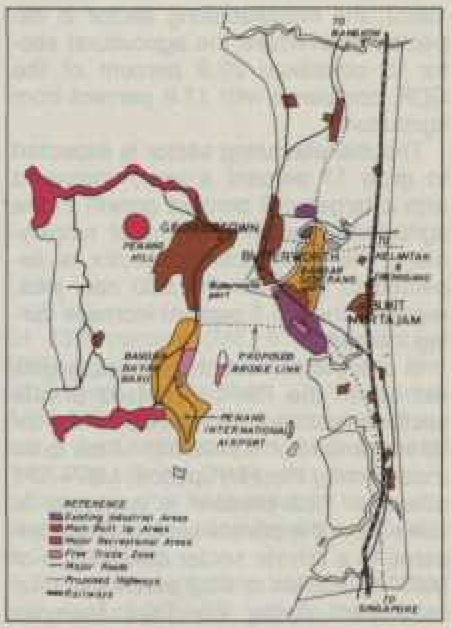
Having set itself the targets to be achieved in order to broaden the industrial base of the nation, the Malaysian government has also drawn up various strategies for the '80s.

These strategies for industrial development in the 1980s can be summarized as follows:

- To encourage the setting up of high-technology industries for the upgrading of skills in the existing urban centers, where the increasing cost of labor must be matched by higher-value-added products or higher productivity per worker.
- To promote the establishment of

Continued on page 46

Penang: Land Of Growing Opportunities



PENANG is located on the northwest coast of peninsular Malaysia. It is one of the most developed of the 13 states of the Federation of Malaysia. The state is now undergoing a rapid process of economic restructuring. In its development strategy, the state government has mapped out a multi-pronged approach to develop various sectors of its economy. The industrial sector is an important growth sector to provide employment and income opportunities in the state. Through the state's efforts in industrial development and promotion, a wide range of industries from electronics to textiles and chemical industries has been established.

Many multinational corporations, such as National Semiconductor, Monolithic Memories, ITT Transelectronics, Motorola, Intel, Robert Bosch and Hitachi, have set up facilities in Penang.

Apart from the industrial sector, Penang is actively encouraging the growth of its urbanization and construction sector. Two new townships are being built while the city center is being redeveloped.

The tourism sector is also being given due emphasis in view of the anticipated tourism boom in Southeast Asia.

Private sector participation involving both local and foreign capital investment in the development of hotels and related activities is most encouraging. Many foreign hotel management groups have indicated interest in hotel development in the states.

Although success has been achieved in the various sectors of the economy, the fact remains that in this dynamic state there is still tremendous scope for further expansion and growth.

In the industrial sector, industries that are capital-intensive, high-technology and resource-based have been identified for rapid expansion.

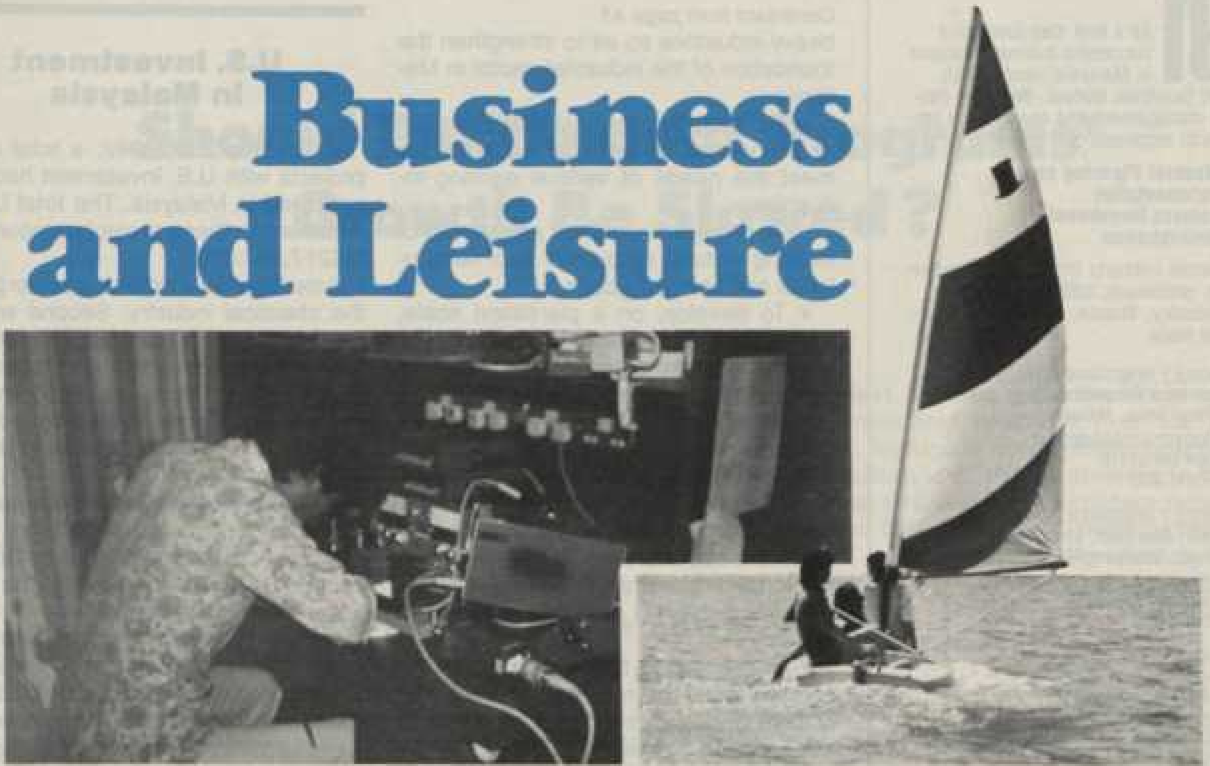
THERE ARE ALSO opportunities for expansion in the engineering industries that will be necessary to support the heavy industry sector. They will be actively developed by the Heavy Industries Corporation of Malaysia.

Investors already in the state were quick to recognize the tremendous opportunities. They have in fact embarked on various expansion programs. This is to be expected since, besides security of investment and the quality of life, these investors know they are assured of the following benefits:

- Geography—good air, sea, road and rail connections with other Malaysian states and good communication with Asian capitals, such as Bangkok, Singapore and Hong Kong.
- Economy—conducive economic measures, state policies and attitudes toward investment and development, excellent infrastructural facilities, strong currency and stable price levels, modern banking and commercial community.
- Government—development-oriented, stable, efficient and honest administration.
- Labor—a large reservoir of properly motivated labor, well-developed vocational and technical training, competitive labor cost, high productivity, absence of strikes and similar labor problems.
- Incentives—strong government support for foreign capital investment, excellent financial and nonfinancial incentives.

With all these benefits Penang can be considered an exciting area that offers tremendous opportunities to investors. Investors visiting Penang for the first time have expressed surprise that its infrastructural facilities for industrial and other development far outstrip the facilities found in most other areas.

Business and Leisure



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- Free Trade Zone - special areas for export oriented industries
- Productive skilled & semi-skilled workforce - competitively priced and trainable labour
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P.O. BOX 967. TEL: 04-832111. CABLE: "PEDECOR".

Continued from page 43

heavy industries so as to strengthen the foundation of the industrial sector in Malaysia.

• To promote the establishment of ancillary and supporting industries to meet the needs of various existing industries.

• To promote increased processing of existing natural resources into semifinished and finished goods.

• To develop, on a plantation scale, agricultural crops and increased processing of these crops into semifinished and finished products.

• To continue to encourage export-oriented industries.

• To continue to emphasize the policy of dispersing industries away from traditional urban centers so as to give employment opportunities to Malaysians in the smaller towns and new growth centers, especially in the less developed states.

With respect to the emphasis on the establishment of heavy industries, the Malaysian government's commitment to this program has been underlined by the establishment of the Heavy Industries Corporation of Malaysia. HICOM has been established to plan, implement and manage projects requiring substantial investment outlays and having long gestation periods for profitability.

Furthermore, with respect to the emphasis on high-technology industries, technology transfer is one of Malaysia's most important requirements to become an industrialized nation. Accordingly, the encouragement of foreign investment will continue to be given top priority, as it is recognized that the foreign investors' contribution of technical know-how and management skills are invaluable to Malaysian industrial development efforts. Furthermore, foreign investments will help to open up more overseas markets for Malaysian manufactured products, since foreign investors will bring their knowledge and access to international markets through their established marketing network.

If necessary, industrial strategies will be modified from time to time to further promote the industrial development of Malaysia. With abundant natural and human resources, vast opportunities for investment in the manufacturing sector exist in Malaysia.

Some of the industries Malaysia wishes to see established include the manufacture of rubber-based products, timber-based products, agriculture-based products and precision products. This list is by no means exhaustive and the Malaysian government is prepared to consider proposals for any kind of manufacturing investment that can be profitably established in Malaysia. ■

U.S. Investment In Malaysia

As of Sept. 30, 1982, a total of 168 projects with U.S. investment had been approved in Malaysia. The total U.S. investment in these projects amounted to M$217,837,000.

American investment was largest in the chemical industry. Second was the electrical and electronic industry and third was the beverage and tobacco industry. Other areas of significant U.S. investment include rubber-based products, wood products, textiles and transport equipment.

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Should Entitlement Programs' Growth Be Slowed?

Arguments for slowing growth: The federal government's entitlement programs have been expanding in recent years at a rate that is becoming financially impossible to maintain. These open-ended programs guarantee benefits to everyone who proves eligibility for them, regardless of the government spending obligations that result. The cost of the programs is intensified by automatic escalators that tie benefits to the consumer price index. Annual entitlement payments now exceed $313 billion, including $144 billion for Social Security, $65 billion for health programs, $35 billion for federal civilian and military retirement, $16 billion for veterans' benefits and $15 billion for welfare. These and other programs now consume well over half of the federal budget, and the expansion can be maintained only through stiff tax increases or ruinous deficits.

Arguments against slowing growth: Congress established specific entitlement programs over the years to meet well-defined, legitimate needs. These programs represent valid commitments of the government to the elderly, the ill, veterans, civil service and military retirees, and the poor. The fact that the sum of these payments has grown significantly because of changing economic and demographic conditions does not alter their basic validity. The problem has already been contained in that no major new entitlement programs have been established in recent years. Use of a cost-of-living adjustment has kept these programs in line with inflation and should not be considered any kind of bonus or excessive payment. If the federal budget is growing too fast, savings should be found in military outlays, not in social programs on which millions depend.

Verdict: Hold the Social Security Retirement Age at 65

NATION'S BUSINESS readers responding to a poll favor retention of the Social Security retirement age at 65. Many hold that efforts to ease financial pressures on the Social Security system should be concentrated on other aspects of the system. The question of whether the retirement age should be raised was posed in the "Where I Stand" question that appeared in the November issue. Those responding oppose the higher age by a margin of 2 to 1. The majority supports the argument that individuals turning 65 should not have to work longer in order to get Social Security benefits and are entitled to leisure in their later years.

This Is Where I Stand

Should Entitlement Programs' Growth Be Slowed?

YES ☐ **NO** ☐

Mail to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062

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Getting Back To Basics

By Grover Heiman

John Fery made a healthy forest products company out of a sick conglomerate.

WHEN JOHN B. FERY became president and chief operating officer of Boise Cascade Corporation in 1972, the Idaho-based conglomerate was in deep trouble. The price of a share of Boise Cascade common, which had soared to $80 in 1969, had fallen to $8. Security analysts, once enthusiastic about the fast-growing company, had become disenchanted.

Today the price of a share hovers around $40. Boise Cascade's existence is no longer threatened, and eventually those $80-a-share days may return. The price of this progress has been high; a $200 million write-off in 1972 ranks among the largest in American corporate history.

After more than 10 years under Fery's leadership, Boise Cascade has reduced a monstrous debt burden by disposing of real estate developments, cruise lines and Central American electrical utilities. It has added timberlands in the South and paper mills.

In sum, Boise Cascade has returned to its beginnings and become a strong, integrated forest products company. In 1981 the company, which has 29,500 employes and operates in 35 states, had sales of $3.1 billion and a profit of $120 million. "We are doing what we do best," says Fery, who sees significant growth ahead for paper and pulp. Boise Cascade is the nation's largest producer of business forms paper and data processing paper.

When Fery became president, he succeeded Robert V. Hansberger, one of the most free-wheeling merger masters of the 1950s and 1960s. Hansberger had combined Boise Payette Lumber Company and Cascade Lumber Company, two regional lumber firms, to create Boise Cascade. Fery had gone to work under Hansberger six months after graduating from Stanford with an M.B.A. and had been on Hansberger's team ever since. He was widely regarded as Hansberger's protégé and probable successor.

Fery had not planned to go into the forestry business while at Stanford. He was focusing on investment banking and considering attractive offers when a professor told him that the president of a small Oregon company was looking for an assistant.

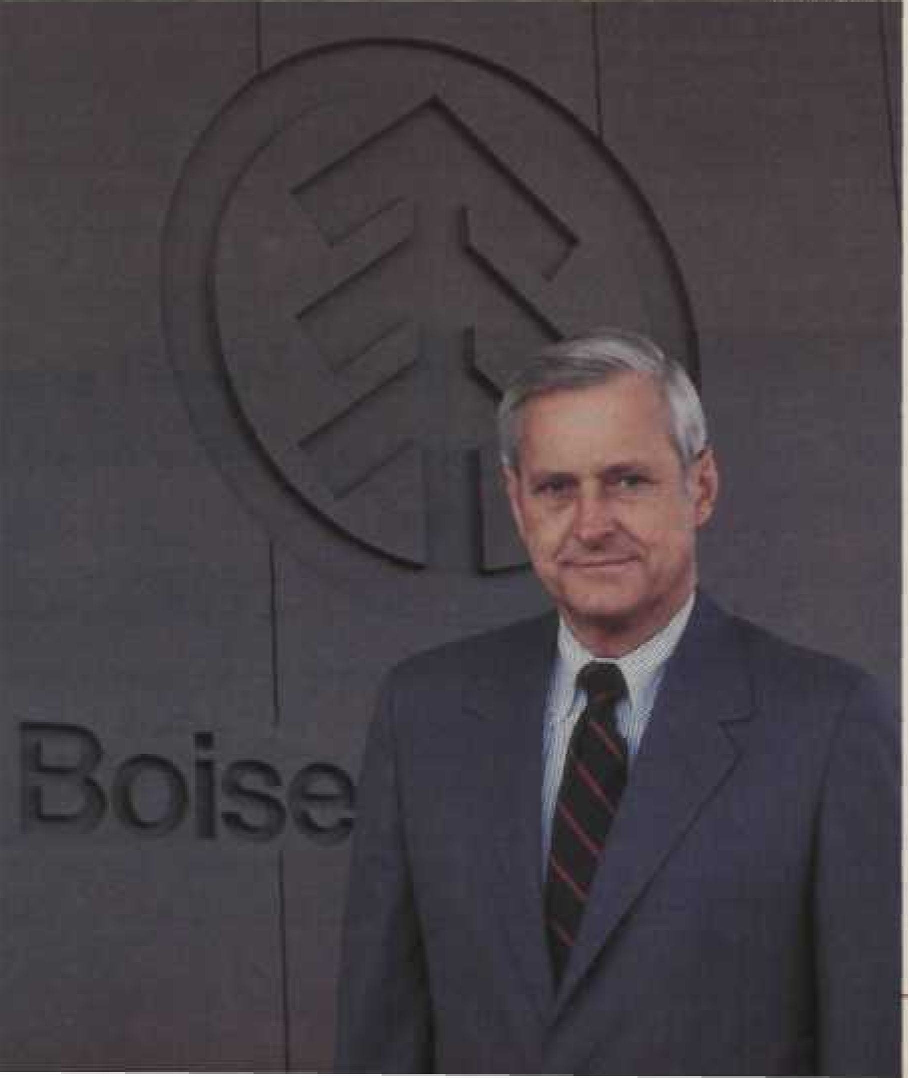
"That had a good ring to it," Fery recalls. "I had concluded that investment banking was top priority, but that if the right entrepreneurial opportunity came along, I would be interested—if it wasn't a large industrial corporation. If I could achieve management responsibility sooner, I would look at it."

Fery was offered the job and went to work for Western Kraft Corporation in Portland, Ore. Six months later he was made production manager of a new paper and pulp mill in Albany, Ore., reporting to the executive vice president for operations, Robert Hansberger.

A year later, Hansberger was president of Boise Payette Lumber Company, and he asked Fery to join him as his assistant. "His pitch to me," Fery says, "was that this small regional lumber company should be merged with some other small regional firms so that it could be large enough to have the raw material base to get into the paper and pulp business."

Fery recalls Hansberger adding: "You come on over here and I'll learn the lumber business [he had come up

PHOTO: DAVID FRAZIER



through the paper side]. You find a place to build a pulp and paper mill and we'll work together in figuring out some companies to merge with. We'll put together a bigger company."

John Fery, then 26, didn't hesitate to go with a "very bright, aggressive and ambitious fellow." Fery soon found the site for a paper and pulp mill at Pascoe, Wash., at the confluence of the Snake and Columbia rivers. When the plant and an adjoining corrugated-paper plant were completed in 1958, Fery, at age 28, became general manager of the Boise Cascade paper division.

IN THE ENSUING FIVE years the paper and pulp operations prospered, but Fery was concerned about the future of his part of the company. "In order to grow I would need more money, and it was in Boise that the dough was being allocated. If you missed a meeting there, you might miss an allocation. So I called up and said I'd like to move to Boise and run my operations from there. They said fine."

Fery was named a vice president at 30. Seven years later he was promoted to executive vice president and named a director. Most operations, except management of the growing forestry holdings, eventually came under his control.

Through the mid-'60s the company expanded rapidly, becoming one of the nation's major forest products companies. But top management, concerned about the cyclical nature of the markets for lumber, plywood and paper, decided to diversify. By the late '60s Boise Cascade was a large land developer, concentrating on the second-home market in California. In 1969 the company acquired Ebasco Industries, which consisted of three large engineering and construction firms.

Boise Cascade kept diversifying, into mobile homes, recreational vehicles and power lawnmowers. As the '70s began, Fery was having growing doubts about the wisdom of the company's course.

"I respected the reason for diversification," Fery says. "Yet I was concerned because diversification was detracting from the growth and development of the paper business, which was my primary responsibility. I felt there was a great opportunity in the paper business.

"In '69, '70 and '71, problems were developing in some of the businesses, and they turned to me to manage some of them. I suggested we sell some, liquidate others."

PHOTO: BLAIR PITTMAN

Boise Cascade Corporation's Chairman John Fery discusses production at a paper mill in De Ridder, La., with Charley Wood, a winder operator.

The retrenchment began, but in 1971 the company reported an $85.1 million loss, $74 million of that from land development.

Boise Cascade was fighting lawsuits in California, and consumer groups and officials in other states were joining the chase. In mid-1972 the company all but abandoned land development, taking that $200 million writeoff. Of 26 land development projects, only two remained.

To guide Boise Cascade through the storm, the board of directors turned to John Fery, who was named president and chief operating officer in June, 1972, replacing Hansberger, who remained chairman and chief executive officer. In October, 1972, Hansberger resigned, and Fery was made CEO. Stephen Moser, who headed the forestry operations and had been, with Fery, one of two executive vice presidents, was named chairman. When Moser retired in May, 1978, Fery became chairman and CEO.

"In about six months," Fery says of his early days as president, "we sold about $500 million in assets to reduce our debt." When the bloodletting stopped, Boise Cascade's timber, building materials and paper packaging operations were largely intact; the company still had some 7 million acres of timberland. Fery began rebuilding.

"John went all over the system," says Senior Vice President William Bridenbaugh, "explaining the changes and the prospects for the future. His personality and communications skills tempered the transition. This outfit closed ranks. It was incredible. 'We are a company with problems,' he said, 'but we can survive.' "

For 15 years Boise Cascade had been a beacon to bright and ambitious young people from top schools around the nation. In 1972, for example, 33-year-old William M. Agee was senior vice president for finance; Agee, a Boise native and a product of Harvard's graduate school of business, left the firm that year to take a similar job with Bendix Corporation, and in a few years he rose to chairman.

Fery tried to make it clear to his staff that although Boise Cascade was not out to conquer the world overnight, as had seemed to be the case in the past, growth was still ahead and with it greater opportunity. "When he took over," says Bill Bridenbaugh, "his focus was on putting an organization together. And his focus is still on the human resources of the company. He realized early that people are what makes a business work."

THE COMBINATION of opportunity, the Boise life-style, with its stress on the outdoors, and Fery's style of management are credited with being major factors in retaining capable executives. Associates say Fery doesn't make decisions arbitrarily, seeks advice and listens to dissenting opinions. "I am basically a cheerleader," he says.

A shirt-sleeve manager, Fery is a familiar sight throughout the modernistic Boise Cascade headquarters building, and his key executives are used to having him drop in unannounced and casually run over the options on a problem. Likewise, his office door stays open and he is accessible.

Sometimes, associates say, he gets involved in details that don't warrant

his attention. But an incident in Fery's past encourages him not to leave anything to chance.

At the University of Washington he belonged to a fraternity and became a campus politician. He was elected president of the freshman class and then the sophomore class. After a year in Korea with the Naval Reserves, he returned to campus and ran for student body president. He was challenged by a student-newspaper reporter who filed at the last minute. The fraternity candidates had always won, and Fery figured he was a shoo-in. He lost.

"I learned an important lesson," he recalls. "And that was not to be overconfident. I learned the lesson of humility and buckled down and hit the books. I started thinking about the future and what the devil I was going to do with my life. I learned that you have to sit down and think about things beyond those that are on the table."

Fery, who had originally planned to become a lawyer, changed direction, toward business.

This new direction was not exactly in keeping with his heritage. His grandfather, John Fery, an Austrian who immigrated to this country in 1866, was a painter and a close friend of the noted artist Charles Russell. Grandfather Fery was commissioned by the Great Northern and Southern Pacific to paint murals for their railroad stations, but at every opportunity he and Russell would head for the high country with guns and easels.

Carl Fery, the painter's son, graduated from the University of Michigan with a degree in forestry and then took a master's in forestry from the University of Washington. He worked for corporations and state agencies as a forester, always happiest when he was among growing trees.

His son John was born in Bellingham, Wash., in 1930. When John was 6 years old, Carl Fery took a job as a wood buyer in Everett, Wash., to be near good schools. But he suffered a nervous breakdown, and the family moved to a log cabin, without electricity or plumbing, on Orcas Island in Puget Sound. John Fery attended a one-room school for his first two years as a student.

When he was 8, his father took a job as a forester, and the family moved back to the mainland, where John was enrolled in a Seattle public school. He mowed lawns and repaired bicycles, then got steady after-school employment as a paperboy. In high school he worked in a drugstore, and summers he was a firefighter for the state forestry service, at the suggestion of his high school football coach. Fery, who played offensive tackle, worked with his father one summer on forestry projects.

PHOTO: BOISE CASCADE

John Fery is an avid outdoorsman. One of his favorite pastimes is to backpack into Idaho's high country with his wife and angle for wary cutthroat trout in alpine lakes.

FERY ENTERED the University of Washington in 1948 and paid his way by working for the drugstore during the school year and pumping gas for Standard Oil during the summer. In 1953, in his senior year, he applied to the graduate school of business at Stanford, was accepted, got married after graduation and moved to Palo Alto. He had met his bride, Dee Carlo, while both were students at the University of Washington. She got a job teaching school, and with money from the GI Bill and his earnings from selling redwood fencing in the summer, the Ferys managed until he got his M.B.A. in 1955.

There is unanimous agreement that John Fery lives and breathes his company, but he makes a special effort to stay close to his wife and three sons. Bruce, 22, is a varsity tackle at the University of Idaho, and Michael, 18, is a tackle for Boise High. Brent, 24, graduated from Stanford and is now a second-year law student at Gonzaga University.

"John makes time for the children," says Dee Fery. "I remember one time when there was an important football game and the next day he had to be at a Business Council meeting in Virginia. After the game he got on the company jet and flew most of the night to get there in time for the meeting."

John Fery doesn't like flying, but his tight schedule keeps him on the road and in the air about 25 percent of his time. When he is in Boise, he leaves his hilltop home, which has a dramatic view of Idaho's capital city in the valley below, and drives himself to work at 7:30 a.m., Monday through Saturday. He normally eats lunch at his desk and leaves for home between 6 and 7 p.m. Dinner waits while he walks and jogs for three miles and then works out on two exercise machines. After dinner, Fery spends a couple of hours on the office work he brings home.

"Where he really relaxes is at our home in Sun Valley," says Dee Fery. "We both love to ski and backpack into the high country. But I find it hard to keep up with him because my legs are a lot shorter." Hiking is John Fery's favorite recreation. His pace is fast uphill, and on the flats it is awesome.

Is there any possibility that John Fery will curb his drive and slow his pace, on or off the job? "Not that I can see," says his wife, who recounts an incident on a recent backpacking trip. "For some reason John, who always leads, had fallen behind, and I was setting the pace. Then he actually elbowed me aside and got back in front. 'Hey,' I protested, 'what did you do that for?' And do you know what he did? He laughed and said, 'I want to be first.' "

He has the same objective for Boise Cascade. Since 1974 the company has made $3.5 billion in capital improvements. When the economy is stronger, Boise Cascade will be ready for the renewed demand for paper products and building materials. □

To order reprints of this article, see page 58.

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PHOTO: TOM TRACY—BLACK STAR

Products or services that save women time or enhance their leisure hours will do well in years ahead.

PHOTO: STEPHANIE MAZE—WOODFIN CAMP

The growth in the Hispanic population has far-reaching implications for a variety of markets.

THE LOUD COLORS and pop-art designs of many fast-food outlets are giving way to warmer tones and more subdued architecture. In commercials promoting long-distance telephone calls, garrulous teen-agers have been replaced by grandparents waiting for a call from a married daughter and by a woman whose younger sister has just turned 30.

Colleges and universities are stepping up adult education programs. Small towns, which shrank as one generation after another went off to the cities, are growing again. More and more businesses, particularly those in border and coastal areas, display this sign: "Se Habla Español."

These and many other emerging developments in the marketplace are the result of U.S. population trends that will have an increasingly heavy impact on business in the years ahead.

Foremost among the demographic changes: In the 1990s a larger proportion of the population will be middle-aged than at any time in history because the post-World War II baby-boomers—born between 1946 and the early 1960s—will fit in that age bracket. One result will be more demand for a broad range of nondurable goods.

And not far into the next century, baby-boomers will begin entering the ranks of senior citizens, creating extraordinary demand for health care products and services.

One result will be that youth, which dominated the country in terms of numbers for so long that it "almost seemed a natural force like gravity," will no longer be a decisive factor, says Landon Jones, author of *Great Expectations: America and the Baby Boom Generation.* Companies that rely solely on the "younger generation" for a market could be in trouble. For example, the hot fashion of the '70s, blue jeans emblazoned with their designer's name, is already fading.

By 1990, baby-boomers will be approaching their peak earning years and will wield the greatest concentration of buying power ever assembled. In 10 years, the average income for men in this group will rise (in 1981 dollars) an estimated 20 percent, to $27,900, and the average for women will increase 12 percent, to $9,700, according to Michael D. Shannon, an economist for Data Resources, Inc. (He attributes this predicted disparity in pay hikes to what he

The aging of yesterday's youngsters will strongly affect business tomorrow. So will other demographic trends.

says will be an increasing proportion of part-time workers among women.)

At least half of the country's working couples are baby-boomers, which has helped boost the discretionary income of young couples to new highs. Fifty-one percent of American wives held paying jobs in 1981, as against 25 percent in 1950.

Peter A. Morrison, director of the population research center at the Rand Corporation, predicts that the number of women in the job market will continue to grow, making it worthwhile for banks and insurance and investment firms to target more of their products toward women. Already, more than 50 percent of the investors in the United States are women.

Any product or service that saves working women time and enhances the quality of their limited leisure time will probably succeed, Morrison says. Child-care services will proliferate in the years ahead—not because more babies will be born, but because women who become mothers will be less inclined to stay home with their infants.

In 1980, 43 percent of the children under 6 years old had mothers in the labor force, compared with 29 percent in 1970. Many of those working mothers are separated or divorced; one-parent families comprise about one tenth of all households.

Births today are at a near-record low. So, at 1.9, is the fertility rate—the number of children born per American woman of childbearing age.

The American birthrate reached its all-time low between 1973 and 1977, when there were 14.8 live births per 1,000 population. The birthrate has risen only slightly since then, to the current 15.9 births per 1,000 population. A further slight increase is predicted in the rest of this decade.

The low birthrate has affected other population trends. The average household is smaller today, at 2.8 persons, than ever before, and it will continue to shrink through the 1990s. This trend will affect housing and consumer markets, demands on public services, and modes of service delivery. For example, as more people live alone, Landon Jones says, they will be even more inclined than they are now to eat outside the home.

Since 1970 the median age has risen from 28 to 30, and over the next three decades it will rise sharply, reflecting both the dramatic drop in the fertility rate and the aging of the baby-boom generation.

With increased life expectancy, the percentage of Americans 65 and older will rise from 11 now to more than 20 in less than a half-century. (Not only people in the United States are living longer. Travelers Insurance Company says that, worldwide, more than half of all humans who have ever reached or passed the age of 65 are alive today.)

Demand for nursing homes and for supportive services like homemaker assistance will increase dramatically, but so will demand for many goods and services not usually associated with the elderly.

The widespread belief that most older people are living near the poverty level is simply not true. The per capita income of the nearly 10 percent of U.S. households headed by persons 65 and older is only $500 less than that of households as a whole.

Drop just below retirement age, to the 55-to-64 group, and you have the most affluent consumer market in the country today, according to the Bureau of Labor Statistics.

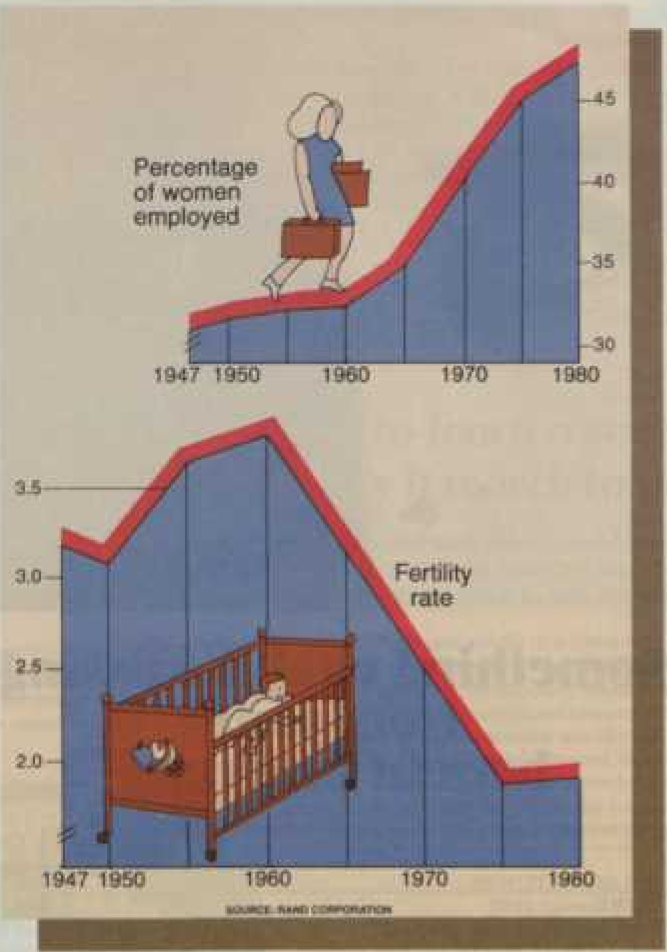
Older Americans, many of them at their earnings peak, are prime consumers of luxury goods. They also account for an above-average share in the markets for over-the-counter drugs, mobile homes and garden supplies. Vacation and restaurant expenditures tend to be highest among the 55-to-64 group.

Demographers suggest that expanding catalog and home delivery services for older Americans could pay off. Brokerage houses, banks and insurance companies could benefit by tailoring more of their services not just to women as already mentioned, but to persons 55 and older.

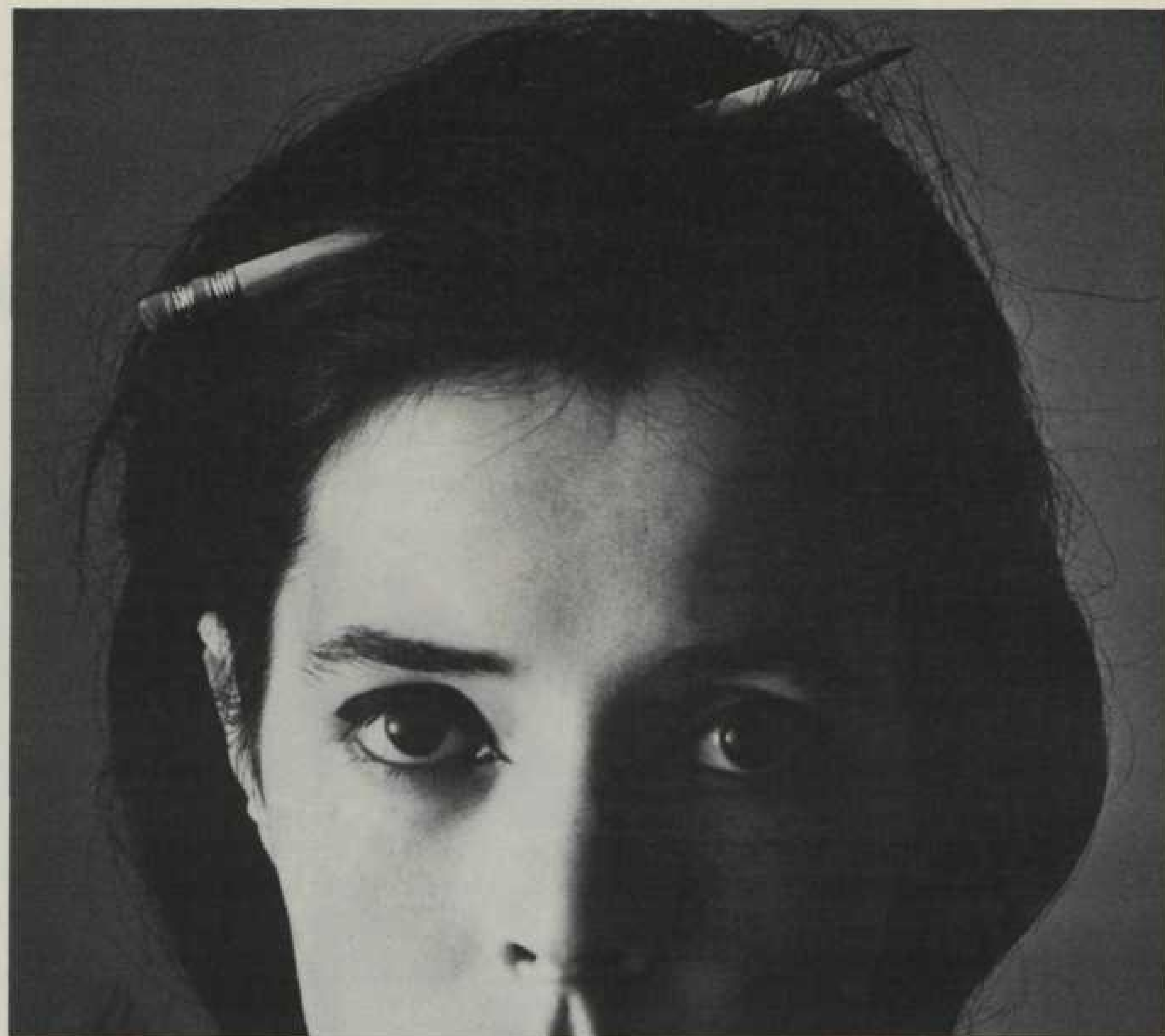
The aging of America's population will have profound effects not just on markets, but on employment as well. For example, beginning around 1990, employers may have to raise wages to compete for the dwindling number of people entering the work force.

In addition, the spate of job opportunities is likely to encourage more older people to keep their jobs longer. Since older employes usually earn more than the younger employes who otherwise would replace them, this development would also lead to higher wage costs.

Such increases in wages would result in increased local, state and federal tax



A dramatic increase in the number of women entering the work force between 1960 and 1980 corresponded with the equally sharp decline in the U.S. fertility rate.



revenues—an effect that would be magnified by progressive tax rates.

Tax collections will be affected in the future by a large unknown: the extent of illegal immigration. An increase could actually be a boon to revenues, since most studies show that illegal immigrants pay federal income and Social Security taxes but draw relatively few benefits.

An increasing share of America's population growth is due to immigration, both legal and illegal, with most immigrants concentrated in the 20-to-35 age group and in a relatively few states, especially New York and California.

Thanks to immigration and a high birthrate, Hispanics are one of the most rapidly growing segments of the population; their numbers have risen more than 60 percent since 1970, to nearly 15 million. The Hispanic birthrate in 1979—the most recent year for which a figure is available—was 25.5 per 1,000 population, compared with 14.8 per 1,000 for the non-Hispanic white population. By the year 2000, Hispanics are expected to number between 23 million and 26 million.

The growth in the Hispanic population has far-reaching implications for a variety of markets, says Michael S. Teitelbaum, senior associate at the Carnegie Endowment for International Peace. Restaurateurs specializing in ethnic foods, especially Spanish and Latin American, should do well. The demand for foreign-language inserts in newspapers will increase dramatically. Businesses providing multilingual services are likely to enjoy a booming market.

> One of the most important shifts taking place in all regions is a marked preference for smaller communities.

Future markets will also be shaped by the migration of people within the country. One of the most important shifts taking place, in all regions of the country, is a marked preference for smaller communities. This is a reversal of historic trends in U.S. population distribution.

Certain rural regions are undergoing exceptionally rapid growth as people—particularly the elderly—move there seeking recreation or a better return on their retirement dollars. These areas include parts of northern California, New England and upper Michigan.

The center of economic activity will remain in the urban Northeast for the foreseeable future. Demographers are uncertain whether jobs and people will continue to move south and west over the next 20 years as rapidly as they did in the past.

For businesses, migration trends will translate into small, rapidly growing markets or large, stable ones, depending on the geographical scope of the companies' operations. But even large enterprises would be well advised to look at the country in terms of smaller frameworks, says Morrison of Rand. "Regional strategies will be required more than ever before," he says.

Interpreted correctly, one demographer says, demographic trends can help businesses plan for the future and make the most of emerging opportunities.

"Demographic analysis," he says, "will hold the key to successes—and failures." □

—Tony Velocci

U.S. Arsenal: Still Too Puny

There has been some progress on fleshing out our thin line of defense production. But not much.

AMERICAN MILITARY PLANNERS think that if the Soviet Union and its Warsaw Pact allies ever invade Western Europe, they will probably try to penetrate NATO weak points, overwhelm the Western forces and drive straight through to the English Channel. The strategy would echo Nazi blitzkrieg strategy of World War II.

To deny the Soviets a victory, NATO must be prepared to wage conventional warfare for an indefinite period.

NATO is now outnumbered and outgunned in Central Europe, but it may be most imperiled by a shortage of supplies.

If war broke out, Western forces would have enough materiel on hand to last only 45 to 60 days. After that, if enough new supplies could not be provided, the United States and its allies might have to choose between capitulation or use of tactical nuclear weapons.

It would primarily be up to America's defense industries to bridge the gap between the start of fighting and the day a few weeks later when supplies began running short. Makers of military hardware, from jets to bullets, would have to step up production in a hurry if the military's critical needs were to be met in time.

But could they do it?

Two years ago, a number of government panels, including the House Armed Services Committee, warned that national security was in jeopardy because a rapid buildup in defense production—a surge, as it is known at the Pentagon—had become so difficult to achieve.

Much of the U.S. defense industrial base had disintegrated. The number of suppliers—mostly small and medium-sized firms that feed components to large prime contractors—had shrunk. Production bottlenecks and long lead times for certain critical parts had extended delivery schedules for some major weapons systems by three years.

THE GREATEST SHARE of the blame belonged to the government, investigators declared. The stop-and-go nature of defense programs—rooted largely in Congress' practice of funding on a year-to-year basis—had caused defense business to become too financially risky for most firms.

Decrying the situation as intolerable, the Reagan administration and many members of Congress vowed to take corrective action (NATION'S BUSINESS, July, 1981).

Since then, the situation has changed—but not much.

Defense industries would still have trouble increasing production by any substantial margin on short notice. Excess manufacturing capacity created by the recession has only temporarily reduced many of the bottlenecks and long lead times so prevalent among defense contractors two years ago. Some stockpiling of long-lead-time parts and other materiel is going on, but not nearly to the extent that it should be, say military and industrial experts.

There is far more reliance on foreign suppliers than in 1980, especially in electronics, and that "drives us up a wall for mobilization planning," says a Defense Department official. Domestic firms that supply components to prime defense contractors are losing markets to overseas competitors.

In many cases, Pentagon officials say, products from overseas are less expensive and more reliable and are delivered on time more consistently than the products of domestic suppliers.

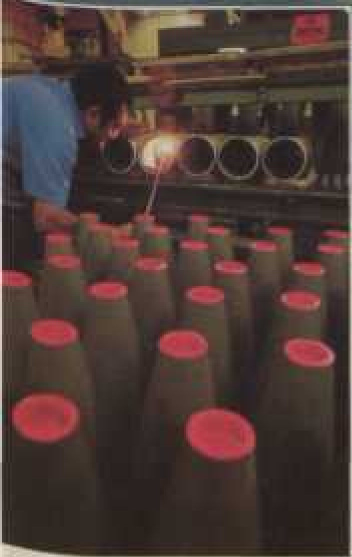
"We have no clear understanding of how much foreign labor and supplies are going into U.S. defense products," says John N. Ellison, an official of the Mobilization Concepts Development Center at the National Defense University, a Pentagon-funded institution that offers courses to officers and select business and government executives.

All the armed services rely on the same manufacturers for many of their weapons systems. Hughes Aircraft, for example, assembles special-purpose missiles for the Army, Air Force and Navy. This system interdependence, as it is called, could prevent a sudden, sizable production increase in an emergency. Most of the manufacturers probably could not produce a surge of material for all their military customers simultaneously, and the customers have nowhere else to go.

The rapid production of warplanes (this is a Navy A4 Skyhawk) and other military hardware requires a strong defense industrial base.

Much depends on how efficiently the Pentagon spends its procurement dollars, and especially on how much it emphasizes building surge capability into its network of suppliers. Such capability requires multiple sources for key items and an inventory of long-lead-time parts that could hold up final assembly of whole weapons systems.

All four armed services have been ordered to take planning for mobilization and surge production into account in the procurement of certain hardware. "That wasn't done in the past," says the National Defense University's Ellison.



Suppliers of munitions like these artillery shells probably couldn't increase output quickly.

PHOTO: MARTIN MARIETTA

A toolmaker for Martin Marietta Corporation, one of the largest defense contractors, checks the performance of a precision machine. The Reagan military buildup is likely to provide jobs for many skilled workers who are now unemployed.

The nation's shipbuilding capability has diminished over the past couple of years as shipyards and projects have dwindled. A planned expansion of the Navy's shipbuilding program isn't likely to reverse the decline, since 80 percent of the work (in dollar value) is to be concentrated in only six of the country's 27 shipyards.

Lack of civilian work could cause more than a few of the remaining yards to go out of business in a year or two, say industry sources.

EVEN THOUGH THE defense industrial base continues to suffer from past neglect, policy changes at the upper levels of government—as embodied in guidance from Defense Secretary Caspar Weinberger to the armed services—should lead to real progress over the next few years, experts say.

Historically, defense planners have agonized over how much money to allocate for near-term military readiness—new hardware, in other words—as opposed to long-term stability in the defense industrial base. The latter has been consistently shortchanged. But now the Pentagon has earmarked some \$12.5 billion to be used during the next five years to upgrade the defense industrial base. That amount is roughly triple what the Pentagon devoted to strengthening the defense industrial base in the previous five years.

Some of the money will be lent to private manufacturers to expand capacity. The rest will go to modernize equipment owned by the Defense Department and operated by private companies, to stockpile critical components and to develop new manufacturing technology for use in the private sector. (Computer-assisted design and manufacturing, now used extensively in many nondefense industries, is an example of technology that was originally developed by the Pentagon for military applications.)

CIVILIAN DEFENSE analysts are encouraged by other developments as well. For example, the Defense Department is expanding its use of multiyear procurement, which enables contractors to better anticipate labor and product needs and thus enhance efficiency.

To encourage firms not now doing business with the Defense Department to compete for defense-related contracts and to help companies already supplying the military to better plan their capital requirements, the Pentagon is updating its Defense Economic Impact Modeling System. This is actually a five-year forecast—available this year for the first time to the private sector—detailing the Defense Department's future needs. At least 600 companies have requested copies of the forecast.

Some industries vital to military preparedness, such as the forging industry, are still operating below 50 percent capacity and wondering when they will start getting new business from the Pentagon. "We're waiting for orders to start coming in, because not much is happening now," says Richard Schofield, a Forging Industry Association official.

Defense suppliers should see a sharp increase in business by late this year. During the third quarter, there will be a nearly 20 percent rise (in dollar value) in defense prime contracts over the previous quarter, according to Allen Sinai, senior vice president of Data Resources, Inc., an economic forecasting firm. Improved military markets are expected to lead to accelerating electronics and aerospace industry sales through 1985.

Despite the recession, some defense contractors have invested heavily in modernization during the past two years. Sperry Corporation, for instance, has put nearly \$50 million into new plant and equipment to handle defense-related business.

Most of the changes now under way have resulted from Reagan administration policy initiatives, but one significant bill affecting the defense industrial base was introduced during the 97th

PHOTO: FRED CONRAD—SYGMA

Forgings, used extensively in tank manufacturing, are readily available now, but that is due largely to the recession. In a healthier economy, suppliers could easily experience production bottlenecks.

Congress and attracted wide bipartisan support. It is expected to be reintroduced in the 98th Congress.

The Defense Industrial Base Revitalization Act would allocate $1 billion annually over five years in grants, loan guarantees and purchase agreements to assist in plant modernization, to develop domestic sources of critical minerals and to train people in critical job skills. (This money would be in addition to the previously mentioned $12.5 billion that the armed services already are planning to spend to upgrade the defense industrial base over five years.)

Opposition to the revitalization bill was strong. Business groups, including the U.S. Chamber of Commerce, claimed it would add needlessly to the federal deficit.

The bill's provisions for training in job skills might appear especially superfluous. As increased appropriations for defense begin to be reflected in actual payments to contractors, ample blue- and white-collar labor should be available, economists say. Some economists believe that many of the skilled workers—machinists, tool and die makers, and the like—who have lost jobs in civilian industries will find new employment with military suppliers.

"A shortage of skilled labor won't occur in the defense industrial base until the nation is a lot closer to full employment again," says Sinai.

OTHER FORECASTERS are not so optimistic. For example, the American Electronics Association predicts a shortage of 100,000 electronics engineers, a staple in defense work, during the next five years.

"When we have to surge production, a lack of skilled people will probably be our most serious shortfall," says Arthur Williams, president of Amron Corporation, a $30 million-sales manufacturer of artillery projectiles. "We're running tight and lean in order to stay alive. We have no backup people in key spots, no training program for critical skill areas and no apprenticeships."

There are other threats to the strengthening of the defense industrial base.

Ironically, one problem could stem from the sharp increase in defense procurement over the next few years. Congress may respond to budget difficulties by stretching out many of the new procurement programs—buying, say, fewer new airplanes in a given period and forcing a contractor to operate at a less than optimum rate of production.

Such a stretching-out of procurement "impairs a company's peacetime efficiency and prevents it from maintaining a healthy, diversified supplier base," says Jacques S. Gansler, vice president of Analytic Sciences Corporation, a research and analysis firm. Gansler, a former deputy assistant secretary of Defense for acquisition, adds: "It also precludes any meaningful capability to surge production if required, putting us right back where we started."

A strong defense industrial base is as much a part of deterrence as sophisticated weaponry, but achieving it will require matching defense programs with available resources, a growing number of civilian and military experts say. Also needed, they add, will be an improved dialogue between government and the private sector. And institutional inertia in the defense establishment will have to be overcome.

"The first steps, in the form of policy statements, have been taken to improve the situation," says Gansler. "Now the tough part comes: implementation and investing available resources wisely." □

—Tony Velocci

A Victory for Business —And a Challenge

By Del Marth

EVER SINCE President Franklin D. Roosevelt reached into the federal treasury 50 years ago to buy a pick and shovel for America's unemployed, business people have been contending that the solution to unemployment lies not in government largess but in the competitive, profit-motivated private sector.

Now they have their chance to prove it. Last fall a bipartisan majority in Congress passed the Job Training Partnership Act. The official title is not nearly as rousing as the description applied to the act by William Kolberg, president of the National Alliance of Business: "a social experiment of tremendous significance."

Business leaders have greeted the law with a chorus of enthusiasm. They see it as the long-awaited opportunity to prove that the private sector, not the federal government, can best assess labor market needs, train unskilled workers and provide jobs for the unemployed.

The federal government tried to perform those functions under the Comprehensive Employment and Training Act. CETA's 10-year life will end September 30, with few eulogies expected.

"CETA was flawed from its very inception," says Vice President George Bush, "because CETA was directed from Washington ... and Washington has shown itself incapable of running [such programs] efficiently and intelligently."

PHOTO: MARY LYONS—UNIPHOTO

This woman in California's Silicon Valley is a retrained worker. The new job training act calls on the private sector to reduce unemployment through retraining programs.

The Job Training Partnership Act is both the counterpoint and the successor to CETA. It is a "clear victory" for the Reagan administration and the business community, says Assistant Labor Secretary Albert Angrisani.

"We cannot afford to fail," he told National Alliance of Business convention delegates in October. "You have your destiny in your hands."

President Reagan's New Federalism also is at stake, since the act prescribes a partnership between the private sector and state and local governments.

In a coast-to-coast television hookup, the President and a panel of governors, mayors and business leaders from around the country called on business people to rally to the challenge of the act. Using the U.S. Chamber of Commerce's television network, BizNet, President Reagan asked business people to get involved, saying that the act "beseeches business to do what it does best."

During the two-hour television conference, panel members took questions from business leaders around the country on how to implement the act.

Pennsylvania Gov. Richard Thornburgh called the act "our moment of truth." He said, "The level of enthusiasm is out there to make this program work, and everyone I've talked with looks forward to assuming the responsibility."

Cooperation between business leaders and local governments is the key, according to Indianapolis Mayor William H. Hudnut III: "The primary difference between this act and CETA is that cities now must work more closely with the state. Historically, there has been a lack of cooperation between the two."

Panelists and callers alike were optimistic about the act's effect on individual communities. One panelist, James B. Campbell, president of Mississippi School Supply Company in Jackson, summed it up:

"Most jobs in the future will be in small and medium-sized businesses, and each community knows best what these jobs are. Each area now has the flexibility to gear its job training and retraining needs to its own market ... and many of our institutions, such as the area vo-tech and junior colleges, are already in place to help do the job."

In CETA's early years, Washington tried to place responsibility for job training and placement with local gov-

ernments and excluded the private sector. Then Congress turned CETA into a massive public jobs program. Slipshod administration further confounded the good intentions that led to the enactment of CETA.

In retrospect, CETA symbolizes wasteful government spending. The program ran up a bill of $53 billion in nine years but provided either short-term public jobs or training that failed to prepare participants for existing opportunities in the private sector. President Reagan has asked that funding in the current fiscal year—as CETA is phased out and the new law is phased in—be set by Congress at a comparatively modest $3.8 billion. However, the sharp break with the past is best exemplified not by the new act's lower cost but by how it will operate.

Each governor will appoint a state job training coordinating council. At least one third of the council's members must come from private industry in the state. Local officials and state legislators must make up at least 20 percent of the membership, with the balance coming from local education agencies, organized labor, community-based organizations and other groups.

The governor and the council will divide the state into areas where job training is needed. The day-to-day work in the service delivery areas, as they will be called, will be sponsored by private industry councils.

When a service delivery area is designated, a PIC will be organized in that

> "This act is our moment of truth. . . . The level of enthusiasm is out there to make this program work."
>
> —Gov. Richard Thornburgh of Pennsylvania

area. As with the state job training coordinating council, a PIC must be weighted with business leaders—but more so. They must hold 51 percent of the seats, and the PIC chairman must come from among the business community's representatives.

Those business representatives must be owners of companies, chief executives or chief operating officers of private employers, or other private sector executives who have substantial management or policy-making responsibilities in their organizations. Whenever possible, at least 50 percent of the business representatives must be from small business, defined as firms with fewer than 500 employes.

To hire staff and begin work during fiscal year 1983, each PIC may be given as much as $80,000 in federal funds. Its staff and money must be used to work out an agreement with local elected officials that covers who will receive funds under the act, who will run the program and how planning will be done for the service delivery area. Such an agreement is a prerequisite for additional federal funding.

The new act defers almost totally to the PIC members' knowledge of the labor market in their area; it permits use of a wide variety of procedures to get the area's unemployed back to work.

For example, a PIC training plan may include job search assistance, job counseling, remedial education and basic skills training, skills training in school

Putting the New Law to Work

The Job Training Partnership Act goes into effect October 1, but many of the procedures to implement it are now in place. States and communities around the country can begin fulfilling the act's requirements at once.

Here is an outline of the steps that must be taken and of how state and local chambers can contribute.

Each state's governor must appoint a state job training coordinating council, and business leaders should try to see that the governor appoints the council by February 1 and that the governor and the council designate local service delivery areas by March 1. Until those areas are designated, local action to develop private industry councils and public-private partnerships cannot be completed.

In helping the governor appoint the state council, chambers should determine who the logical business leaders for job training at the state level are. Suggestions should be communicated to the governor and support gathered for nominees.

The council will derive its power, in part, from the prestige of the people who serve on it. Because the council's chairman must be from outside government, chambers should push for an outstanding business or chamber person to fill that spot. Local chamber and business leaders should also meet with political leaders to determine the best local service delivery areas in the state. Once a decision is made about a particular service delivery area, the suggestion should be communicated to the governor and the state council. The more local business and political support for such a proposal, the better.

Representatives from local chambers and other business organizations should get together to solidify the business community behind a single slate of nominees for the local private industry council. In many service delivery areas, more than one local government will be involved. Officials from these jurisdictions should be encouraged to agree on their appointments to the private industry council, and the governor should be encouraged to approve the PIC's membership quickly.

Once appointed and approved, the private industry council should meet as soon as possible, hire a staff and develop a job training program. Local elected officials and the PIC must agree on the final job training plan for the area. The local government's representative and the PIC will jointly submit the job training plan to the governor and the state job training coordinating council for approval.

Once the plan is approved, the PIC should organize to begin operations October 1.

Local chambers should watch for these pitfalls:

- Several chambers may be active in one service delivery area, and cooperation among them to develop a single slate of business nominees is vital if the interests of business are to be adequately represented on each PIC.
- Specialized schools often are already training people for specific jobs in a community. To avoid establishing unnecessary training programs, these schools' administrators should be consulted about how the schools can become part of the new program.
- The governor is required to work with the state job training coordinating council, but the council is advisory and the law assigns it no specific staff. Various state agencies may joust for the position of overseer of the program at the state level, creating danger that the program will be damaged or delayed in a bureaucratic skirmish.

In a special BizNet television broadcast, President Reagan appeals to business leaders to retrain the nation's unemployed.

Two who applaud the act are Assistant Labor Secretary Albert Angrisani (left) and National Alliance of Business President William Kolberg.

or on the job, advanced career training, training programs offered by the private sector using private facilities, preapprenticeship programs and even customized training for a specific business that has made a commitment to employ an individual after the training period.

Most important, 70 percent of funds made available to a service delivery area must be spent on training. Not more than 30 percent can be earmarked for administrative costs, support services, allowances and wages. (By comparison, less than 18 percent of CETA funds have been spent on actual training.) A full 40 percent of eventual federal funding must be spent training disadvantaged youths aged 16 to 21.

All plans developed by PICs for their areas must be reviewed by the governor, but he can disapprove only those that do not meet the law's requirements or the state's goals. For its part, the Labor Department in Washington will not meddle in the details of training programs worked out by states and their PICs.

THE BUSINESS COMMUNITY earned its extensive role under the Job Training Partnership Act through a small program that Congress made part of CETA in 1978—the private sector initiative program. Five percent of CETA funds were set aside to develop employment and training programs in the private sector.

CETA figures showed that programs funded under the private sector initiative program had a 25 percent higher job placement rate than the traditional CETA programs. They also showed that trainees coming out of the private sector programs increased their average hourly wages $1.35 above what they were earning on their previous jobs, compared with a 65-cent increase for public sector CETA graduates.

Although CETA is going out of existence, many of the private sector programs it spawned are still in place and doing well, and will continue under the new legislation.

Among them is Foundry Casts, Inc., a comprehensive training program that serves Milwaukee foundries. The foundry industry designs the training and hires the staff, and is now hiring graduates of the program. In the first year, the cost per graduate was only $2,700, and the new foundry employes started in jobs paying $7.50 to $9 an hour.

Another such partnership exists in Tulsa, this one between private industry and craft unions. They collaborate in training unskilled workers for unfilled jobs. To date, the placement rate for trainees completing programs in construction and as nursing assistants is 100 percent.

Given such successes, it is no surprise that business leaders and organizations are praising the Job Training Partnership Act. Since the act first took form in congressional committees, the U.S. Chamber of Commerce has lauded it for "placing the leadership of training programs and facilities in the hands of local employers who know what skills are needed and what jobs are available in the communities. . . ."

The U.S. Chamber has urged local and state chambers, and allied business organizations, to take the lead in implementing what it calls "a sensible and workable law." It points out that the law's success "will depend on the degree to which the business community makes a commitment to leadership." □

Putting More Wind In Yankee Traders' Sails

There was the clipper of old, and now there is the new Export Trading Company Act—a measure especially valuable for the smaller firm.

By Bob Gatty

MORE THAN 25,000 American companies—many of them small—produce goods and services that could be much in demand abroad, the Commerce Department says. But for many reasons, including roadblocks raised by our own laws, these companies have been reluctant to enter the international trading arena.

Often firms "are inhibited from exporting by their unfamiliarity with foreign markets, customs and laws," notes Commerce Secretary Malcolm Baldrige. "Individually, they can't afford the costs and risks to develop the necessary expertise to penetrate those markets."

Congress responded to this dilemma by passing the Export Trading Company Act of 1982. It gives the sanction of federal law to companies that can provide all the services many firms need to take advantage of potential markets abroad. Already, as word of the new law spreads, calls are coming into the Commerce Department. Deputy Assistant Secretary Donald V. Earnshaw says the calls "are from attorneys who want to advise clients, trade association executives and some businessmen. The word is getting around."

When he signed the ETC bill in October, President Reagan pointed out that it will help create jobs—more than 320,000, according to the Commerce Department. The President estimated that it could increase U.S. exports by up to $11 billion within the next three years.

"In the last century," the President said, "Yankee clippers carried American products abroad and returned with exports from distant lands. Americans still have the know-how and the vitality to sail the oceans in pursuit of trade. We're encouraging them to do just that."

Under the new law, export trading companies can be owned by banks as well as by private entrepreneurs. For the first time banks will be able to participate on a broad scale in trading company ventures. The law also permits firms that compete domestically to export their products jointly without running afoul of the antitrust laws.

Such joint efforts are nothing new in Japan, Korea and most European countries, the major competitors of the United States in international trade. But banking and antitrust laws in America have limited the extent to which U.S. firms can work together to export, and many companies have been daunted by the prospect of entering the export market on their own.

William H. Morris, Jr., assistant secretary of Commerce for trade development, and Earnshaw have been crisscrossing the country, promoting the new law in speeches to business groups and trade associations. Morris points out that many smaller firms have shied away from overseas markets because of "the fear of the unknown."

HOW TO ESTABLISH a sales network abroad, how to obtain financing, how to get paid, how to get products shipped—questions like these, plus language differences, special packaging requirements and other barriers have kept many firms away from exporting, Morris contends.

"The ETC Act creates a business entity that answers those questions for the small and medium-sized companies, allowing them to concentrate on their service or product," he says.

Rep. Don Bonker (D-Wash.), the principal sponsor of the ETC legislation in the House of Representatives, points out that although major corporations have the resources to compete on the international scene, small and mid-sized companies usually do not. He adds:

"Many of our businesses are oriented to the domestic economy. They lack the vision; perhaps they just need to be encouraged to get into international trade. Our new ETC law will provide that incentive."

In Bonker's own congressional district exporting is crucial to the local economy. Wheat, timber and wood products, fish products and seafood are all important exports from Washington state.

The timber industry, Bonker points out, has suffered because of the housing slump. Barring a domestic turnaround, "the only way to revitalize that industry is through trade," he says.

Bank participation in ETCs is seen by many trade experts as perhaps the most important result of the new law.

Many outstanding small export-management companies already provide most of the services that will now be offered by ETCs, says Matthew P. Lawlor, president of U.S. Multitrade Company, of Washington, an international trade and investment firm that he founded two years ago.

The major difference, he explains, is that through the extensive involvement of financial institutions ETCs will be able to offer financial services that export-management companies previously could not provide.

"I would not have gone into this business had I not felt that the Export Trading Company Act was coming down the

With aid from MITCO, an export trading company, a small Minneapolis firm is selling this wood-carving machine abroad.

PHOTO: DAVID R. FRAZIER

The new law will spur the sale of American products—like this lumber bound for Japan—by making it easier for many companies to enter foreign markets.

PHOTO: WAYNE PARTLOW

Rep. Don Bonker (D-Wash.) was a sponsor of the Export Trading Act. Exports are crucial to his district.

pike," Lawlor says. "The real name of the game is diversification—spreading the risk—and networking, being plugged into the key trading centers. The banks understand these fundamentals."

WITH BANK INVOLVEMENT, ETCs will have access to rich new sources of capital. This is a major advantage of the ETC over the existing export-management company and a reason why many of those companies will now be associating themselves with financial institutions, Lawlor says.

Lawlor, who spent more than 10 years in the banking industry and also worked in government before starting U.S. Multitrade, predicts the formation of banking consortia, with smaller banks working together to provide the help—the capital, the contacts and the services—that ETCs will need to serve their clients fully. He asks:

"Why can't the banks in, say, Harrisburg, Pa., form an export trading company for Harrisburg-based firms that may need the assistance to get into exporting?"

Such a firm has already been established in the upper Midwest through the merger of MITCO International, a trade promotion firm formed by the two major business organizations in Minnesota, and an export-management company, MANTRA, Inc., which was started about eight years ago.

The new company, MITCO International, Inc., provides four major kinds of services to clients in the region: finding markets in the United States for importers; marketing products abroad; helping firms obtain service contracts, like contracts for the design and construction of sewage treatment plants or dams abroad; and helping clients with counter-trade arrangements, under which U.S. firms receive payment abroad in merchandise rather than cash.

(Counter-trade has become increasingly important as exporters have found that they often must accept such barter payments when dealing with Third World countries or the People's Republic of China.)

HOW WILL THE ETC law change MITCO's operations? Charles S. Blethen, vice president for product marketing, says the major difference will probably be increased bank participation.

"Bank holding companies have been our major investors, but this has been restricted," he notes. "Now they can participate more extensively if they wish." Blethen thinks that the banks will "be scrambling to get involved."

Blethen believes the potential for new ETCs is "tremendous." He notes that in Minnesota only about 1,000 of the 5,900 manufacturing companies have ever exported their products and only about 400 do so routinely. If only 10 percent of the rest have products that could be exported—Blethen says that's a conservative estimate—then in Minnesota alone there is a vast market for ETCs.

The average export-management company serves five clients, Blethen says. "On that basis, you have an immediate need in Minnesota for another 100 trading companies."

Although the ETC law is geared to helping smaller firms enter the export arena, numerous large companies have already established their own in-house export trading companies and taken on the product lines of other manufacturers. The new law provides assurance that such activities will not run afoul of U.S. antitrust laws.

General Electric established its trading company earlier this year, after evaluating market opportunities and the firm's already established trading network. According to George J. Stathakis, president of the GE Trading Com-

How the ETC Act Can Help

How do you take advantage of the Export Trading Company Act of 1982?

The Department of Commerce is planning a series of seminars across the nation, beginning this month, to give businesses the answer to that question. The seminars will be timed to coincide with the development of regulations that will outline the procedures for establishing export trading companies, according to William H. Morris, Jr., assistant secretary of Commerce for trade development.

Under the law, any organization seeking to engage in export trade can obtain from the Commerce Department—with the concurrence of the Justice Department—a certificate of review. The certificate will state that specified activities by an exporter do not violate the antitrust laws, thus giving the exporter greater assurance than before that it will not be subject to antitrust attack.

The certificate must be issued unless the export-related activities will substantially lessen competition or restrain trade in the United States or restrain the export trade of an American competitor. The certificate can be denied if the activities will unreasonably enhance, stabilize or depress prices in the United States, or amount to an unfair method of competition, or can reasonably be expected to result in the sale or resale of exported goods or services in this country.

A certificate protects the exporter's certified conduct from criminal and civil antitrust suits under both federal and state laws, with two exceptions:

- Persons injured by the certified conduct may sue for injunctive relief and actual damages for violation of antitrust standards.
- The Justice Department may enjoin certified conduct that threatens clear and irreparable harm to the national interest.

Before the Commerce Department can accept applications for certificates of review, it must reach agreement with the Justice Department on regulations for issuing the certificates. The law sets no deadline for that, but work on the regulations was expected to be completed by the first of the year.

The certification procedure will take effect 90 days after the regulations are issued. Commerce may issue guidelines, with the concurrence of Justice, to help exporters understand the certification standards.

Morris promises that regulations and application blanks will be written "in common business parlance" so that they can be easily understood.

Meanwhile, the International Trade Administration at the Commerce Department has established a clearinghouse for U.S. suppliers and export trading companies. This service, Morris says, will help suppliers get in touch with newly formed ETCs. Similarly, ETCs may want to use the program to identify possible clients.

There is a $25 registration fee for the clearinghouse.

Information from the registration form will be entered into a computer in Washington. For an additional $25, plus $5 per name, companies can receive information about the other firms that have signed up.

Seminars will be held on the following schedule:

Jan. 13—New York
Jan. 17—Seattle
Jan. 18—Portland, Ore.
Jan. 19—San Francisco
Jan. 20—Los Angeles and Miami
Jan. 25—St. Louis and Greensboro, N.C.
Jan. 26—Kansas City and Nashville
Jan. 27—Chicago and Atlanta
Feb. 1—Denver
Feb. 2—Dallas and Mobile, Ala.
Feb. 3—Houston and New Orleans
Feb. 8—Boston
Feb. 9—Rochester, N.Y.
Feb. 10—Detroit
Feb. 15—Minneapolis
Feb. 16—Indianapolis
Feb. 17—Cincinnati
Feb. 23—Cleveland
Feb. 24—Pittsburgh
Feb. 25—Philadelphia

Seminars will be conducted by Commerce Department district office personnel.

In late November, the U.S. Chamber of Commerce held a major conference in Washington to examine the new law and the proposed regulations. "The Chamber worked hard for four years to get this law through," says Gregory Mignano, director of public affairs in the Chamber's international division, "and we intend to use all of the communication resources at our disposal to get the message of this new opportunity across to American businesses—small, medium and large."

pany, the firm decided to offer one-stop export services ranging from market identification, sales and distribution through financing. The new organization serves both GE and outside clients.

Like GE, Sears, Roebuck and Company has been operating worldwide for many years. Since Sears makes export sales to 30 countries and buys from more than 12,000 suppliers, the firm decided to put its network of manufacturers under one exporting umbrella. Grover A. DuBose, vice president for administration of Sears World Trade Company, says that among the firm's international strategies, it is selling technology and management services in Japan, South America and Australia.

The Motors Trading Company, a subsidiary of General Motors, is engaged primarily in counter-trade, according to its president, David H. Hill. Although the firm prefers selling for cash, Hill notes that many countries are short of hard currency.

Evan A. Werling, vice president for finance of the French Oil Mill Machinery Company, of Piqua, Ohio, agrees that counter-trade is a major area in which ETCs can be helpful and says its prevalence is one reason his firm is considering involvement with a qualified ETC. However, Werling does not believe that the new law will really help small and mid-sized firms to compete with foreign companies that can offer government-subsidized financing to prospective customers.

THE LAW REQUIRES the U.S. Export-Import Bank to establish a guarantee for loans to ETCs, but Werling says that this doesn't necessarily mean that financing will be offered at rates competitive with those offered by other countries.

Until such financing is available, Werling predicts, the ETC law will help only those firms that do not need government-assisted financing to sell their products abroad.

Proponents of the ETC law recognize that it is not a panacea—that it will not solve, by itself, all of the problems that have helped create America's merchandise-trade deficit. (For the first eight months of 1982, that deficit was running at an annual rate of $27.2 billion.)

But, they say, it will help.

Commerce Secretary Baldrige notes that export trading companies are a "major tool" of America's competitors in world markets and one reason why the U.S. market share has declined since 1970 from 15 to 12 percent.

"Now," Baldrige says, "American hands are untied. Our companies can compete on the same basis. Exports create jobs and export companies generate exports. These firms will produce major benefits for workers, communities and the entire country." □

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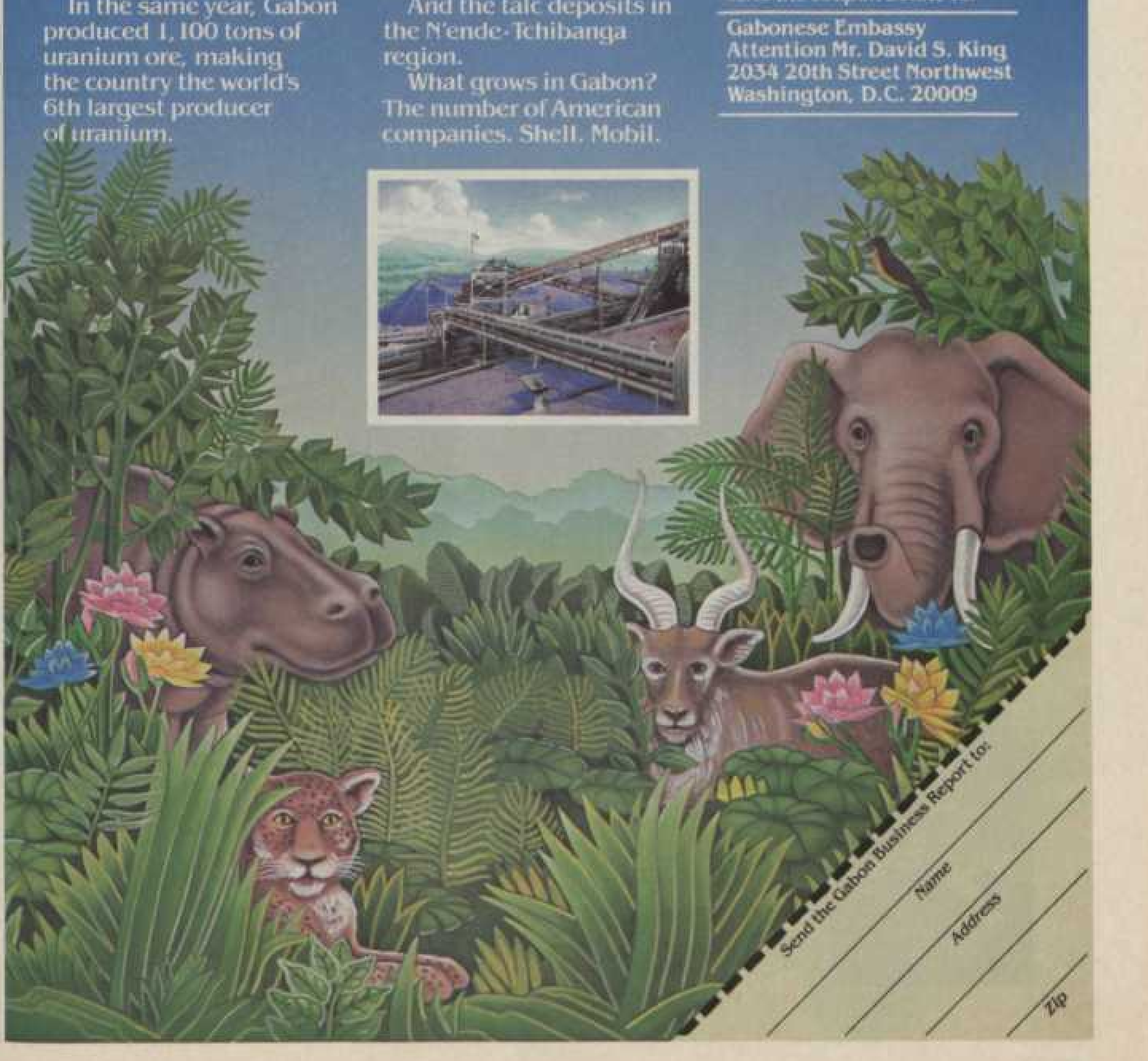

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Rubella is a common, highly contagious, viral disease that occurs mainly in winter and spring. The usual symptoms are mild discomfort, a slight fever for a day, and a rash on the face and neck that lasts for a day or two.

The best protection against rubella is by immunization with a vaccine, which confers long-lasting, probably life-time immunity. Health authorities recommend immunization for all healthy children and for teens and adults, especially young women, who have not had the disease. However, the vaccine should not be given to pregnant women or those who may become pregnant within three months since it could cause the same birth defects as the disease.

If you have had rubella, you are probably immune for life—but why take a chance? Ask your doctor or clinic for the simple rubella immunity test. You'll feel secure if you *are* immune. If you're *not*, your doctor can advise what to do.

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In the interest of promoting better health, Abbott Laboratories has prepared a special brochure about rubella. For your free copy, complete the information below and send this coupon along with a self-addressed, long business envelope with 20¢ postage to:

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Funny Money Is No Laughing Matter

Counterfeiting, that perennial headache for business, is rising.

By C.V. Glines

COUNTERFEITING of U.S. currency is on the rise. The loss to the public has been increasing for the past four years and according to John R. Simpson, director of the Secret Service, "there is no reason to believe that the upward trend of counterfeiting will be reversed in the foreseeable future."

Simpson's agency, part of the Treasury Department, investigated 18,000 reports of counterfeit currency in fiscal year 1981, and the total reached more than 20,000 in fiscal year 1982.

More than $58 million in bogus notes is known to have been manufactured in fiscal year 1981, but most of it never got into circulation. "Counterfeiters passed 228,000 notes with a face amount of $6.9 million, an increase of 25 percent in face amount from the previous fiscal year," says Joseph R. Coppola, special agent in charge of the Secret Service's counterfeit division. "Fortunately, we were able to seize 1.4 million notes with a face amount of about $51.6 million before they were passed."

No part of the $6.9 million loss was tax-deductible.

PHOTOS: RICK BLOOM

Secret Service agent Bruce Pagano uses a mass spectrometer tied into a computer as he measures the percentage of real gold in a fake coin.

"Merchants are the first line of defense against counterfeiters," Coppola says. "They are the ones to whom most counterfeit notes are passed initially and the ones who usually suffer financial loss because no one can reimburse a merchant for a bad note. Unfortunately, they are not always the ones who spot them first."

Many times bank cashiers spot phony bills while counting money. A bank calls the nearest of the 62 Secret Service field offices, and a special agent—one of approximately 1,100 who work on counterfeiting cases—is dispatched immediately. The agent examines the bill, gives a receipt to the bank, starts a local investigation and informs the Washington headquarters.

The agent's report is compared with information from previous cases to see whether a pattern can be established. The phony bill's denomination, serial number, type of paper, watermark, ink and quality of engraving all have significance.

The Secret Service has its own laboratory where the latest counterfeiting methods are studied and detection countermeasures are prepared. The lab has assembled "profiles" of different printing papers; often, after a counterfeit bill is given to the lab for analysis, the Secret Service can trace the paper to its manufacturer and even pinpoint who sold it to the counterfeiter.

Likewise, the lab has been analyzing how photocopy machines deposit layers of toner on paper and developing profiles of the many different types of copying machines. It has proved more difficult to develop profiles of inks, but the lab is still trying.

The Secret Service has a small print shop that the counterfeit division uses to print its own phony bills. The print shop is equipped with printing equipment seized in raids, ranging from a simple offset press to a very advanced electronic transmission duplicator seized in the basement of a well-to-do businessman. The presses are used in training agents before they are sent into the field.

Most phony money does not circulate long before it is discovered. Rarely does a bank pass along a counterfeit note, and the conviction rate for persons accused of counterfeiting is an impressive 99 percent.

"One reason the Secret Service has such a high success rate in controlling counterfeiting," Coppola says, "is because we pursue any counterfeiting operation that comes to our attention, no matter how small, and we never give up the chase. Our prompt follow-up to the discovery of the first illegal bill is the major ingredient in our success rate."

But there are new trends that worry the Secret Service. "We are finding that today's counterfeit money is frequently following the drug trade," Coppola says. "In the drug subculture, counterfeit bills are often used to pay for drugs. The largest numbers of bogus bills are passed at drug entry points and in high crime cities like Miami, Los Angeles and New York."

Coppola adds that "an enforcement problem for us is that about 20 percent of the counterfeit notes passed on to the public were manufactured outside the United States. We suppressed or put out of business 83 counterfeiting plants in the United States in the last fiscal year, but over $1 million in counterfeit notes was brought in from overseas."

Colombia is the principal foreign source of counterfeit U.S. currency. Several years ago, a Secret Service task force helped Colombian authorities close down some large operations. Another overseas source is Italy, but most

PHOTO: RICK BLOOM

Using Secret Service presses, agents like Pagano anticipate counterfeiters' methods by printing phony money and food stamps—plus their own business cards.

of those notes stay in Europe. Such cases are monitored by the Secret Service's Paris office.

"Counterfeiters in Europe, Africa and the Middle East rely on the ignorance of foreign tourists to pass their phony bills," Coppola says. "We have found that U.S. bills are produced in one country and transported to another before being passed. The relaxation of travel and shipping regulations in the Common Market countries has helped their schemes."

ALTHOUGH foreign counterfeiters can't be actively sought or prosecuted by American authorities outside U.S. borders, Secret Service agents frequently advise foreign countries in their pursuit of counterfeiters and testify as expert witnesses when counterfeiters are brought to trial overseas.

Few if any countries officially condone reproduction of their own currencies or those of other countries, and punishment can be severe. In France, for example, life imprisonment can be imposed for the manufacture, possession or passing of phony money. Prison terms in other European countries range from two to six years, compared with up to 15 years in the United States.

In the past, counterfeiters concentrated on making bogus fives, tens and twenties. "Today, since fifties and hundreds are more casually accepted by the public, more and more of them are being manufactured," says Bruce L. Pagano, a Secret Service counterfeit specialist.

Counterfeiting of coins in America antedates the counterfeiting of paper money—coins were copied soon after they were first minted in the American colonies in the mid-1600s. But very little counterfeiting of coins is done these days, Pagano says, except to defraud collectors. Last year, only about $5,000 in bad coins was passed to the public; another $1,500 was seized before it was circulated.

However, vending machines, video games and slot machines present a continuing temptation to some. In Providence, R.I., a gas station attendant noticed coils of copper in the back of a station wagon. Holes the size of a quarter were punched in a few of the coils. The attendant called the Secret Service, giving a description of the vehicle and the license number. The suspects turned out to be operating a large, motor-driven metal press, into which they fed the rolls of copper. Agents seized 6,400 quarter-sized slugs.

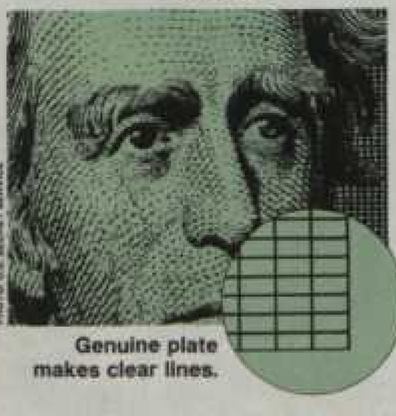
U.S. postage stamps are only rarely counterfeited, but food stamps are being printed illegally at an increasing rate. Almost 10,000 of the phony coupons were found in circulation in 1981 and more than 15,000 were seized by the Secret Service before being passed. Large numbers of counterfeit food stamps have been found in Los Angeles, San Francisco and San Juan, Puerto Rico.

Most counterfeiters end up in prison, but the Secret Service recently closed an operation being conducted inside one.

After businessmen in Charlottesville, Va., reported that counterfeit $100 bills were being passed to them, two local residents were arrested and charged with the possession of $30,000 in fake hundreds. The bills had been made by photographing genuine currency and then etching the image onto printing plates.

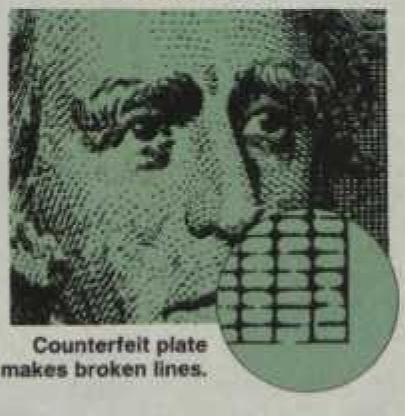
The printing was being done in the print shop at the Virginia state penitentiary in Richmond. □

Genuine



Genuine plate makes clear lines.

Counterfeit



Counterfeit plate makes broken lines.

PHOTO: U.S. SECRET SERVICE

If a Bill Looks Bogus . . .

If what appears to be a counterfeit bill comes into your hands, the Secret Service advises that you follow these steps:

- Compare the suspect bill with one known to be genuine. If differences can be noted with the naked eye or the paper feels unusual, the bill is probably counterfeit.
- Do not return the suspect bill to the person who passed it.
- Delay the person who passed the bill, if possible.
- Telephone the police or the Secret Service.
- Note the physical appearance of the person who passed the bill and the make and license number of any vehicle involved.
- Write your initials and the date on the bill.
- Handle the bill as little as possible to preserve any latent fingerprints.
- Place the bill in a protective cover like an envelope.
- Surrender the bill only to the police or the Secret Service. Under no circumstances should a counterfeit bill be kept as a souvenir.

Here's What's Cooking On Gas Price Controls

Complete decontrol could end the "planned chaos." If it is voted, the vote is likely this year.

By Tony Velocci

WILL 1983 be the year when Congress votes to end half a century of federal price controls on natural gas? The natural gas industry and many commercial gas consumers wish they knew.

Congress wrestled with the issue when it passed the Natural Gas Policy Act of 1978. That law established more than 20 categories of gas, with production from each category subject to different price controls. "You might think of the NGPA as a kind of planned chaos," says Richard C. Perry, director of hydrocarbons supply planning for Union Carbide Corporation, which buys about $700 million worth of gas annually for use as fuel and as feedstock in manufacturing a variety of products.

NGPA emerged only after an intense fight on Capitol Hill, and it was supposed to dispose of the issue permanently. It is not surprising that many lawmakers dread the thought of reopening the price-control question only five years later.

By passing NGPA, Congress decided to gradually deregulate the price of newly discovered natural gas at the wellhead—that is, in the field where it is produced. In broad outline, the law calls for complete decontrol by 1985 of the price of "new gas" produced from wells drilled below 5,000 feet—about 40 percent of the nation's supply. In the second phase, a small additional percentage—new gas produced from shallower wells—will be decontrolled by 1987. In both cases, the President will have the authority to extend controls for 18 months, at his discretion.

Even after 1987, however, between 40 and 50 percent of U.S. natural gas—"old gas," discovered before 1978—will remain under controls until such wells have been exhausted. Numerous industry groups want such price controls lifted from old gas by a fixed date.

Roughly 75 percent of all natural gas is used by business. Many commercial consumers say they would be willing to pay slightly more to secure reliable supplies and stable prices over the long term rather than contend any longer with the uncertainties and inequities created by NGPA.

Congress is widely expected to do something on the gas issue this year, but it remains highly questionable whether it will vote for full decontrol. Certainly, the all-out support of President Reagan would be required for the passage of such legislation. "Without his complete backing, any chance for total decontrol is virtually nonexistent," says an Exxon executive.

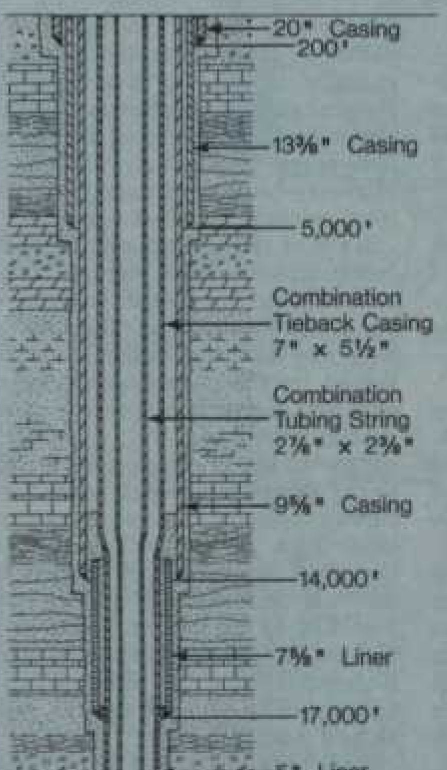
President Reagan promised during his 1980 campaign to support decontrol of all domestic gas prices. Many industry executives believe that he stands by his pledge.

But a source close to the President does not believe he will push very hard, if at all, for full decontrol in 1983. "There are sound economic reasons for lifting ceilings on natural gas prices," the source says, "but there are also political realities tied to the 1984 presidential campaign, which will begin taking shape very soon."

Last year Energy Department officials periodically spread the word that "an administration initiative" was imminent. But, instead, tax and budget battles dominated Washington's agenda, and no administration-supported legislation was ever introduced.

Most industry executives rule out any vote for decontrol in 1984, because

Anatomy of a Natural Gas Well



There's a lot more to a gas well than meets the eye above ground. In a deep well such as the one diagrammed, a hardened steel bit, with its rotating spiked heads, is sheathed inside casings of steel and concrete. In the diagram, the actual bit is inside the elongated string of tubing at the very center. As well depth increases, the 20-inch-diameter casing, surrounded by mud and water, tapers to just 5 inches.

that is an election year. In 1985, the NGPA decontrol schedule will have almost run its course anyway. So, they figure, if the administration and Congress are ever to come to terms on full decontrol, 1983 is the year.

MANY FACTORS could influence how Washington treats the natural gas issue in the weeks ahead, but two stand out. One is the weather. If the winter is especially harsh, residential gas consumers will be hit with a double whammy—they will consume more gas, and because phased decontrol is already under way, they will pay more for every cubic foot of gas they use. The result will be gas bills much higher than those of the last few winters. If that happens, it will be extremely difficult to persuade Congress to pass decontrol legislation.

The other factor is the federal deficit. Some industry analysts believe that the administration and Congress may view decontrol, coupled with a windfall profits tax, as a tempting revenue source.

Some industry officials perceive the President's decision to support a gasoline tax increase as a sign that he would agree to a windfall profits tax. But the source close to the President says there is no way he would accept one.

In the major gas-producing states—Oklahoma, Texas, Louisiana and Arkansas produce roughly 80 percent of total U.S. supply—emotions on the gas issue run high, especially against a windfall profits tax.

A few members of Congress from gas-producing states are likely to press decontrol legislation this year even if the White House never tells the Energy Department to take its draft bill off the shelf and send it to Capitol Hill.

For example, Rep. Phil Gramm (D-Tex.), a member of the House Energy and Commerce Committee, expects to introduce a bill that would remove all price controls on natural gas—old and new—by a certain date, probably the beginning of 1985.

However, even Gramm's bill would make a bow in the direction of price controls by imposing a three-year price ceiling on all gas sold under contracts signed before passage of the bill. Such a ceiling would moderate the price shock that might accompany the simultaneous lifting of all controls.

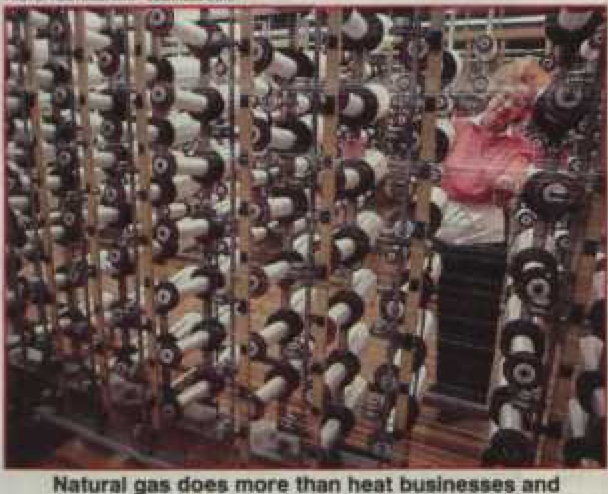
For other members of Congress, the question will not be how to ease the impact of decontrol but how to heap more controls on the industry, perhaps by extending the NGPA decontrol schedule.

Sen. Nancy Kassebaum (R-Kans.) plans to introduce legislation that would freeze wellhead prices at their Oct. 1, 1982, level and extend the NGPA timetable by two years. Only gas produced from deep wells (below 15,000 feet) drilled after October 1 would be exempted.

The senator's objective: to insulate residential consumers from rising prices as much as possible. "It is unconscionable to allow prices to increase, as they are now, when you've got a surplus of a commodity," she says.

According to the American Gas Association, there is a surplus of about 1.5 trillion cubic feet of gas in the United States. (It takes about 83,000 cubic feet annually to heat an average home.) Natural gas consumption in the United States has been declining for the past five years—particularly in industrial markets—because of rising prices and, more recently, the weak economy.

PHOTO: TOM HOLLYMAN—CELANESE CORP.



Natural gas does more than heat businesses and homes. It is also a feedstock for products like these cellulose acetate fibers used in clothing.

Much of the gas industry, like many industrial consumers, argues that the unusual behavior of gas markets—rising prices in a time of abundant supplies and declining demand—has been caused by the government price controls Sen. Kassebaum wants to extend.

Some purchasers with contracts for old gas at low prices have been willing to pay exceptionally high prices for assured supplies of new gas. Even paying those high prices, the average price that they pay for all of the gas they use—old and new—is still relatively low. But by bidding up prices in this fashion, such gas purchasers have unintentionally made life more difficult—and expensive—for buyers who depend on new gas.

Such price distortions are helping to drive up the cost of gas in some areas so much that fuel oil is becoming increasingly attractive to industrial users. More and more are switching from gas to oil, leaving gas distributors with excess capacity and fewer customers to whom they can pass along operating expenses. That is largely why many residential consumers are feeling the pinch in their monthly gas bills, despite the surplus nationwide.

Even though full decontrol of gas prices would end such distortions, its short-term effect almost certainly would be to increase residential gas prices even further, perhaps by 25 percent. The prospect of such increases spurs consumer groups to oppose full decontrol and press for an extension of the NGPA controls.

Observes Jack E. Earnest, senior vice president and general counsel of Texas Eastern Corporation, a gas production and distribution firm: "They are better organized than ever before, more vocal and represent a significant new player in any future legislative effort."

The pressure for new or extended controls may be greatest late next year, on the eve of the presidential election. Everything depends on whether a sharp increase, or "fly-up," in gas prices is likely on Jan. 1, 1985, when many controls will be lifted under the present NGPA schedule.

If the average price of gas in the United States (it is now about $3 per thousand cubic feet) is close to the world market price of oil, on a BTU-equivalent basis, no "fly-up" is likely to occur.

If, on the other hand, the gas price is far below the oil price, a rapid rise in the gas price can be expected when controls are removed. Candidates all over the country will be decrying the imminent price increase, and Congress, fearful of the consequences of decontrol, may well vote to extend the NGPA schedule.

WHEN PRESIDENT REAGAN lifted controls on oil prices in 1981, many prophets of doom and gloom warned that the consequences would be disastrous. But, instead, oil decontrol led to an eventual reduction in the prices of crude oil and petroleum products, a decline in oil imports and increased domestic exploration and development.

No one knows for sure whether similar benefits would flow from full decontrol of gas prices. "There are so many distortions in the gas markets now that it would be impossible to predict the results," says a Capitol Hill energy authority.

What all sides generally agree on is that Congress will face one of its most formidable challenges in dealing with the economic and social complexities of natural gas—if it chooses to take up the issue this year. And even that first step remains uncertain. □

How To Spot Hidden Threats To Your Business

Failing to recognize trouble early enough can mean failure for a company.

By Abraham E. Getzler

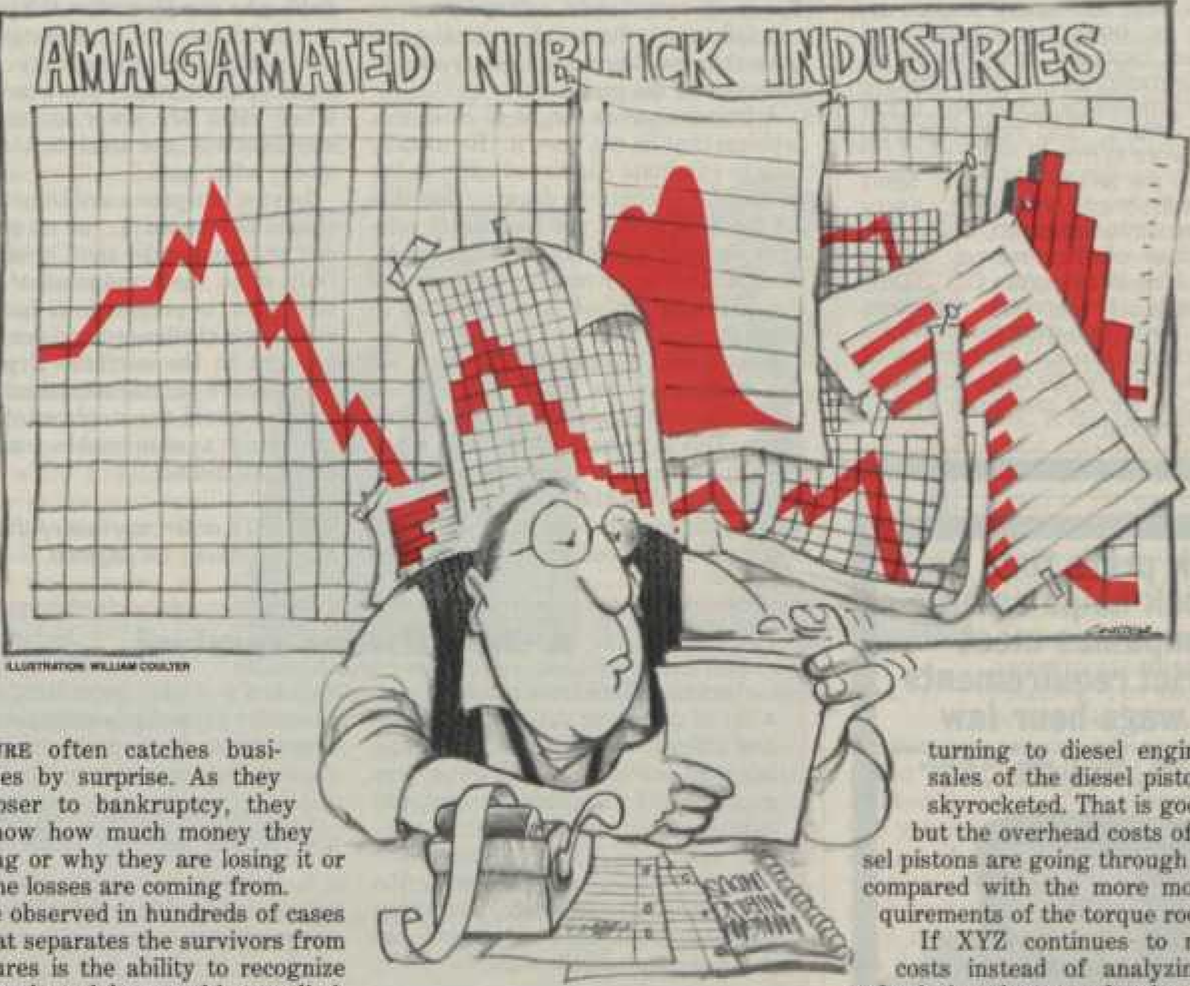


ILLUSTRATION: WILLIAM COULTER

FAILURE often catches businesses by surprise. As they slide closer to bankruptcy, they don't know how much money they are losing or why they are losing it or where the losses are coming from.

I have observed in hundreds of cases that what separates the survivors from the failures is the ability to recognize trouble early and do something to eliminate it.

Too many businesses go on doing things in a certain way because they have always done them that way and have been successful in the past. In perpetuating itself, the system destroys itself.

Let's take the example of XYZ, a manufacturer of torque rods and automobile diesel pistons. XYZ has always divided overhead costs equally between its two basic products, not recognizing that the diesel pistons—because they are more complex—are actually taking two thirds of office, factory and showroom space and two thirds of the time of management and employes. Ten clerks are assigned to diesel pistons and two to torque rods. But XYZ charges the same amount for overhead to both products.

When XYZ first went into business, 30 years ago, sophisticated cost allocation may have been unnecessary. Both torque rods and diesel pistons were good, steady, predictable sellers. But more and more motorists have been turning to diesel engines, and sales of the diesel pistons have skyrocketed. That is good news, but the overhead costs of the diesel pistons are going through the roof compared with the more modest requirements of the torque rods.

If XYZ continues to misapply costs instead of analyzing them and relating them to what is really going on, it is headed for serious trouble, because it is underpricing its diesel pistons and overpricing its torque rods.

Similarly, management often breeds unpleasant surprises for itself by failing to react quickly and decisively when the competition comes out with a better product at a lower price. Management hesitates to mark down its own obsolete product because that would do damage to the balance sheet. And yet it often is more economical to take a quick write-off loss than to maintain an inventory for years—particularly in an era of high interest rates.

A key to avoiding unpleasant sur-

ABRAHAM E. GETZLER *is president of A.E. Getzler & Company, New York, management consultants specializing in business turnarounds.*

prises is being alert to what is happening in the industry and in the company itself. How willing are you to listen to the views of new salesmen? How active are you in going to trade shows and reading trade publications?

Here the pride factor often works against the founder-owner of a company. As a firm gets bigger and more diverse, a founder-owner often loses touch. He can't be aware of every new product in his industry or of the day-to-day efficiency of every executive in every department.

But he continues to think that he necessarily knows more about the company than anyone else.

LIKE A MOTHER who can see no wrong in an errant child, a founder-owner can fail to ask the tough, critical questions that could provide a better idea of the scope of his problems.

A founder-owner can be so close to a problem that he can't see it. (He usually fails to eliminate deadwood early in the game; the executives drawing top dollar for little effort are frequently relatives or golf partners.) What's more, the founder-owner may be the cause of the difficulty himself and not want to admit it.

Sometimes, businesses fall back on the computer as their guarantee against an outbreak of unpleasant surprises. This is a grave mistake. It is not enough to read the numbers; you must understand what the numbers say.

For example, the computer of a producer of high-speed steel and carbide drills showed that sales were running wild in the Rocky Mountain area. That didn't seem to make sense. What the printouts didn't say was that the drill producer's competitors were on strike in the area and the drill producer had become the only source of supply.

The cold numbers also didn't reveal that management had failed to keep in close touch with the market—its drills were being sold perilously close to production costs and well below the prices charged by the competition.

Unpleasant surprises can even lurk in what appears to be an encouraging situation. For example, the industrial equipment field requires heavy capital investment. Have chief executive officers and chief financial officers in this field, who complained as the prime rate reached 20 percent, ever considered the possibility that there may be more bankruptcies when rates are lower? When rates are lower, companies are less cautious and tend to throw good money after bad.

In sum, surprises are something that should be handed to you on your birthday or found under the Christmas tree. Only when the management of a troubled firm is prepared to have its assumptions challenged and see bad news brought to the surface—if necessary, by objective outside consultants—can it hope to avoid the unpleasant surprise of seeing a once viable business go down the drain. □

To order reprints of this article, see page 58.

A Checklist for Survival

Abraham E. Getzler has drawn up a list of questions that a chief executive officer should ask himself. If he answers honestly, he will get a very good idea of the shape his company is in.

1. Are you blindly following the false prophet of volume, producing too many different items and too much merchandise?

2. Are you blinded by the "pride of parenthood" into failing to close obsolete plants or unprofitable divisions?

3. Have you carefully analyzed actual manufacturing costs and the true demand for your company's products, monitored the marketplace and been prepared to adjust quickly to new situations?

4. Are you still employing longtime executives, salesmen or other employes who are making little or no contribution to the company's profits? Are you also permitting costly executive perks like swollen expense accounts and unnecessary limousines or club memberships?

5. Have you prepared an accurate and realistic cash-flow projection?

6. Have you seriously considered selling off inefficient facilities and contracting out the work instead?

7. Are you still maintaining showrooms and other spaces that are no longer necessary?

8. Have you diversified away from your main strength or overexpanded when business was good only to find yourself cash-short now?

9. Are you concentrating on preventing the symptoms of trouble—by simply raising money to meet payrolls, bills and accounts payable—rather than taking the necessary steps, no matter how difficult they may be, to avoid major problems?

NEW POWER ON COMMITTEES

House Democrats' Election Bonus

House Democrats in the 98th Congress will receive a bonus from their gains in the off-year elections—greater domination of the committees that hold life-or-death power over virtually all legislation.

Democrats gained 26 seats in the elections and will have 269 members in the new House, compared with the Republicans' 166. As a result, the ratio of Democratic to Republican members on House committees will be approximately 5 to 3. It was 4 to 3 on most committees during the past Congress.

This increased committee strength will be an asset for House Democratic leaders in what are expected to be continuing clashes with President Reagan over the next two years. The leaders, of course, will also have to keep their troops in line on major issues after the committees act.

The extent to which conservative Democrats will hold the balance of power in the House in the 98th Congress remains a major unknown as the new Congress prepares to convene this month. Such Democrats, organized formally as the Conservative Democratic Forum and known informally as the Boll Weevils, gave President Reagan crucial victories over the last two years on fiscal proposals that constitute the keystone of his policies.

In addition to the revised ratio in the House—the ratio remains the same in the Senate—congressional committee memberships will change because of vacancies caused by the retirement or election defeat of 81 members of the House and five senators.

Key changes include the accession of Rep. Claude Pepper (D-Fla.) to the chairmanship of the House Rules Committee. That panel, one of the most powerful in Congress, decides what legislation reaches the House floor and sets the terms under which debate will be conducted.

Rules is a highly partisan committee, generally viewed as an arm of the House Speaker. Pepper, as chairman, is expected to work closely and cooperatively with Speaker Thomas P. O'Neill.

At the same time, the 82-year-old Pepper has put himself in a key spot for the forthcoming debate over reforming Social Security finances, an issue on which he has gained high visibility as chairman of the House Select Committee on Aging. Pepper has been in the forefront of the political bloc opposing proposals to curb benefit increases.

Claude Pepper (left) will now head the House Rules Committee. Lowell Weicker will chair a Senate appropriations subcommittee.

Although his chairmanship of the Committee on Aging gave him a national forum to represent the interests of the elderly, he had no real legislative power because the committee is not empowered to report out legislation. Pepper is giving up his chairmanship to take one that will give him a major voice on legislation.

On the Republican side, Sen. Lowell Weicker of Connecticut has made one of the most significant committee switches. He will take over the chairmanship of the Senate Appropriations Committee's subcommittee on labor, health and human services, and education. To do so, he will have to surrender his present chairmanship of the same committee's subcommittee on the State, Justice and Commerce Departments and the federal judiciary.

Weicker's shift is considered particularly significant because it will give him a key role in setting spending levels for a wide range of social programs that the President has earmarked for further cuts. Weicker has previously opposed Reagan on reductions in those areas, and he can do so in the new Congress from a stronger position.

Another Senate shift brings Sen. Ernest F. Hollings of South Carolina from the assignment of ranking Democrat on the Senate Budget Committee to the same position on the Committee on Commerce, Science and Transportation.

Although the Budget Committee has offered high visibility to its leaders, Hollings' new assignment puts him into a more active role in three broad areas of the economy at a time when he reportedly is considering a bid for the Democratic presidential nomination.

Many other committee assignments remain to be finalized, but the overall process of filling vacancies this year is relatively routine, compared with the hectic activity that marked the start of the 97th Congress two years ago. Then, Republicans took control of all Senate committees after winning a Senate majority for the first time since 1952.

In 1982 Republicans kept control of the Senate by the same 54-46 margin they won two years earlier.

The House's opening days in the last Congress were marked by a bitter political dispute over Democratic leaders' decision to give their party greater representation on key committees than its reduced ranks would normally warrant. The Rules, Budget, Appropriations and Ways and Means committees were involved. Republicans argued that the Democrats were trying to stack those panels to gain unfair advantage in dealing with President Reagan's initiatives.

Democratic leaders prevailed in the dispute, in what were essentially party-line votes, and the dispute faded as Reagan achieved a series of successes. □

Twilight of the Bonds

The industrial development bond faces virtual annihilation as an aid to private firms. Can it be saved?

Sen. John Stennis (D-Miss.) proposes changing the 1982 tax law so that the IDB can "remain viable" as an economic tool.

THE INDUSTRIAL development bond was born in 1936 and enfeebled in 1982. It may die in 1986, unless rescue efforts succeed. In the course of a full life, the IDB has made many friends and enemies in high places, become a subject of political and economic controversy, and financed billions of dollars worth of business facilities.

IDBs are issued by state or local governments for the benefit of private businesses, typically to help finance new plant and equipment. The business repays the issuing agency under a loan agreement. The favored bonds have been used extensively by aggressive economic development agencies to lure new employers.

Until 1969 the interest on all IDBs was tax-exempt, just as it is on bonds for public facilities like schools and prisons. That year, Congress declared IDB interest taxable, with some exceptions.

The exception of most widespread use to business is one that preserves the interest exemption for small issues—$1 million or less. (The ceiling rises to $10 million if certain capital expenditure limits are met, and to $20 million under an urban development action grant.)

In 1978, creative local governments began using IDBs to fund mortgages for single-family homes at below-market rates. Congress imposed separate limits on that practice in 1980 and provided for its termination at the end of this year.

Despite the restrictions, use of the bonds continued to grow. According to the Treasury, of the $54.5 billion in tax-exempt, long-term bonds issued in 1980, more than half—$28.6 billion—was used for private purposes. Of that amount, $10.5 billion funded single-family mortgages, $9 billion was distributed in small issues and the remainder qualified under other exceptions. Last year, the total for private-purpose tax-exempt bond issues is believed to have surpassed $36 billion.

Critics of the bonds grew alarmed at their increasing popularity and raised three objections to them: They cost the Treasury revenue; they compete with tax-exempt bonds for public facilities, raising the interest rates that must be paid; they constitute an open-ended entitlement program that could become a significant drain on the budget (IDB use in 1981 was estimated at only 15 percent of potential use).

CONSEQUENTLY, the Reagan administration proposed further limits on IDBs as part of the fiscal 1983 budget. A coalition of trade associations and public officials' groups opposed some of the restrictions.

The outcome was a compromise incorporated in the Tax Equity and Fiscal Responsibility Act of 1982. Friends of the IDB succeeded in eliminating an administration proposal to require a small capital contribution from the sponsoring public agency. And in some minor respects, previous limits were liberalized.

However, the net effect of TEFRA was imposition of some stiff new restrictions that spell virtual doom for the IDB. Among the most significant: Public hearings or referenda must be held on each issue, quarterly information reports must be filed with the Internal Revenue Service, straight-line depreciation (rather than the accelerated cost recovery system) must be used for most IDB-financed facilities, and the small-issue exemption is to expire at the end of 1986, eliminating most remaining private-purpose IDB financing with the exception of a few limited categories like pollution control projects and multifamily rental housing. For certain uses—including the establishment of racetracks, bars and massage parlors—the exemption ended at the start of this year.

Last September, Sen. John C. Stennis (D-Miss.) introduced a bill to repeal two of the TEFRA provisions: the ban on ACRS use and the 1986 termination date. He will probably reintroduce such legislation in the new Congress. Stennis says IDBs have been "a huge success" in Mississippi, which pioneered their use, and he cites a study showing that more federal revenues have been gained from the new jobs created there with IDBs than have been lost through the interest exemption.

No one expects such legislation to get through soon, however. There is no substantial support for it on either the Senate Finance or House Ways and Means Committees, and the administration would undoubtedly be hostile if such a bill began to move forward.

However, there is one deadline ahead that may force Congress to take up the issue again this year. The tax exemption for interest on single-family mortgage subsidy bonds terminates at the end of 1983.

"There's no way that the housing industry is going to let the subsidy for single-family mortgages expire," says one knowledgeable observer. But if it is extended, he adds, Congress and the administration may seek to recover the cost by imposing new restrictions on IDBs, such as moving up the 1986 sunset date. In that event, supporters of the IDB would be doing well even to preserve the status quo. □

—Barry Crickmer

PEOPLE IN BUSINESS

Peeking Inside Those Brown Bags

Ideas for new businesses sometimes lie around for generations before they are seized upon. For example, it has been more than 80 years since President McKinley promised every American a full lunch pail, but it was not until last year that David Lyon, 71, a former advertising man, started looking into the pail.

Lyon formed the Brown-Bag Institute, a privately owned research and consulting business, in Greens Farm, Conn., after he learned that more than 80 million Americans carry their lunches to school or work.

Now he has contracts with nine major companies that want to know more about the habits of brown-baggers. Each of these companies—General Foods Corporation and Standard Brands among them—pays Lyon $20,000 a year for data from the Brown-Bag Institute.

Lyon contracts with a research firm in nearby Norwalk to interview by telephone some 1,500 Americans every three months about their brown-bagging habits.

From this random sample, Lyon and his clients have learned that brown-bagging is on the increase, that brown-baggers are enthusiastic coupon clippers and attuned to product promotions and that brown-baggers are, in the main, successful people.

"The majority of brown-baggers make $30,000 a year or more," says Lyon, "and our surveys indicate that they tend to be the better-educated people."

He says an increasing number of brown-baggers complain of a decline in quality, or rise in prices, at office cafeterias.

Clients of the institute use the data to develop new promotions for their products and to create new products for brown-baggers—everything from luncheon meats to thermos jugs to plastic containers.

"Fall and winter are the top brown-bagging months," says Lyon, "and in any one month of the year, two of three households will have brown-bagged one or more times."

Lyon got the idea for his institute three years ago while conducting product research for a client of his Westport, Conn., advertising agency. The institute is a full-time job for Lyon and two additional workers; they work out of Lyon's home in Greens Farm. Is he a brown-bagger? Occasionally.

"I usually go downstairs and rummage around for something to eat ... and then try to clean up the mess before the wife shows up."

A brown-bagger himself, David Lyon makes a living analyzing what is in America's brown bags.

PHOTO: BROWN-BAG INSTITUTE

Two House Painters With a Woman's Touch

Janet Steffy and Barbara Mace have a business card that calls them "Ladies in Painting"—a name that soon may show up in Yellow Pages around the country.

The two former schoolteachers, both in their 50s, are painting contractors (interior and exterior) in the San Francisco area. They have been working five, sometimes six, days a week to keep up with their contracts, but they have a two-month backlog.

Their idea for Ladies in Painting is now being franchised nationwide.

It all started five years ago with a simple request. Steffy's husband had a friend who built houses; the friend had admired the detailed and impeccable paint job Steffy had done in her own home. He was finishing a house and asked her to paint it.

She agreed, but only if she could bring a friend. "I won't work alone with an all-male construction crew," she said.

Like Janet Steffy, Barbara Mace had children who were grown, and she was looking for something to do besides volunteer work. "Maybe it's time we could earn a little bit, what with the kids going on to college," she said after Steffy asked Mace to join her.

The first job was for two days' work. It expanded into two weeks because the contractor liked the quality job he was getting from the two women.

Word got around, a few ads were run, and the Ladies in Painting have been in overalls ever since.

"The only problem has been heavy furniture that needs moving," says Mace. "We push it with our legs rather than try lifting it. But we can do nearly everything a man can."

By trial and error the women developed a price scale. "At first our bids were too low; then, after we raised them, we lost jobs," says Steffy. "Now we know how to market our services."

Ladies in Painting charges between $700 and $900 for a three-bedroom, two-bath apartment of average size, depending on the condition of the walls and woodwork.

Two years ago, Steffy's friend Ron Bates, who heads a sales and management consulting firm, purchased Ladies in Painting and turned it into a franchise operation based in Minneapolis.

The marketing of franchises began

PHOTO: CHANDLER YOUNG

An idea by Janet Steffy and Barbara Mace, former schoolteachers, "to earn a little bit," has grown into a full-time business.

last month, and Steffy and Mace have become the franchisees in their area. A franchise costs $4,000 and entitles two women to a territory specified by the company, two weeks' training in Minneapolis, advertising materials and ongoing management assistance. Additional expenses—brushes, paints, ladders, office space and such—can total $7,000 and up.

Ten percent of each franchisee's gross sales will go to the parent company. For their help in training and the use of the Ladies in Painting name, Steffy and Mace will receive one tenth of what is collected from the franchisees.

Of course, Steffy and Mace wish the franchise operation well, but they get their sense of job satisfaction—and a comfortable income—from the day-to-day challenge of figuring paint needs per room, deciding when to use a tarp or plastic and picking the best brush for a job.

Construction Equipment A Phone Call Away

Information has always been a valuable commodity, but computer-minded Al Belfour sees it as something more. To him, it is "a national resource, just like energy," and Belfour has decided to mine the resource.

In May, 1981, he formed a company called Construction Equipment Locator. Based in Traverse City, Mich., the company offers a computerized solution to a complex problem facing most construction people—how to find a needed piece of equipment quickly and at a reasonable price.

"In the past, persons responsible for solving this problem have had to rely on friends in the business, on dealers or on randomly placed listings in trade publications," says Belfour.

No more. At any one time, Belfour's computer lists more than 20,000 pieces of heavy-duty construction equipment—backhoes, tractors, graders, compactors, water wagons, even several aircraft.

In all, more than $1 billion worth of construction equipment for rent or sale can be found through Belfour's company by a mere phone call.

To list equipment, sellers or lessors give Belfour such information as make and model, series and serial number, and asking price, as well as additional comments. The charge is $35 for each listing, which remains in the computer for 90 days.

Equipment buyers or renters call on Belfour's toll-free WATS lines, telling his staff of operators what they are seeking. The computer shows what is available. Each lead—the name and phone number of the seller or lessor—costs the caller $5.

"It's an incredible saving compared to, say, a two-week delay on a job while a piece of equipment is sought through the usual channels," says Belfour.

Some buyers or lessees request computer printouts of all the equipment in a certain category, says Belfour, and they are charged a small fee per page. The printouts do not carry the owners' names or phone numbers, and the buyer is charged for the lead only when these are requested.

The company's WATS lines are open nearly around the clock and the operators handle about 50 calls daily, up from 25 calls a week when the business first opened.

Belfour, 55, used to work for the Atomic Energy Commission and for the Weather Bureau; at both agencies he managed enormous files of data.

In the early 1960s, Belfour and a partner started a company that computerized data from different pathological laboratories. They ended up selling in 1971 to the College of American Pathologists; Belfour stayed on as manager for six years.

There is no telling how Construction Equipment Locator will develop.

"Our company has been contacted by a man who has a grant to set up a nationwide system to locate missing children," says Belfour. "Our equipment could easily be adapted for that purpose.

"And insurance companies have expressed interest in using our system for locating stolen goods."

To Belfour, the computer adds a "dimension of speed and volume that cannot be duplicated by the human mind." And he intends to exploit it for all it's worth. □

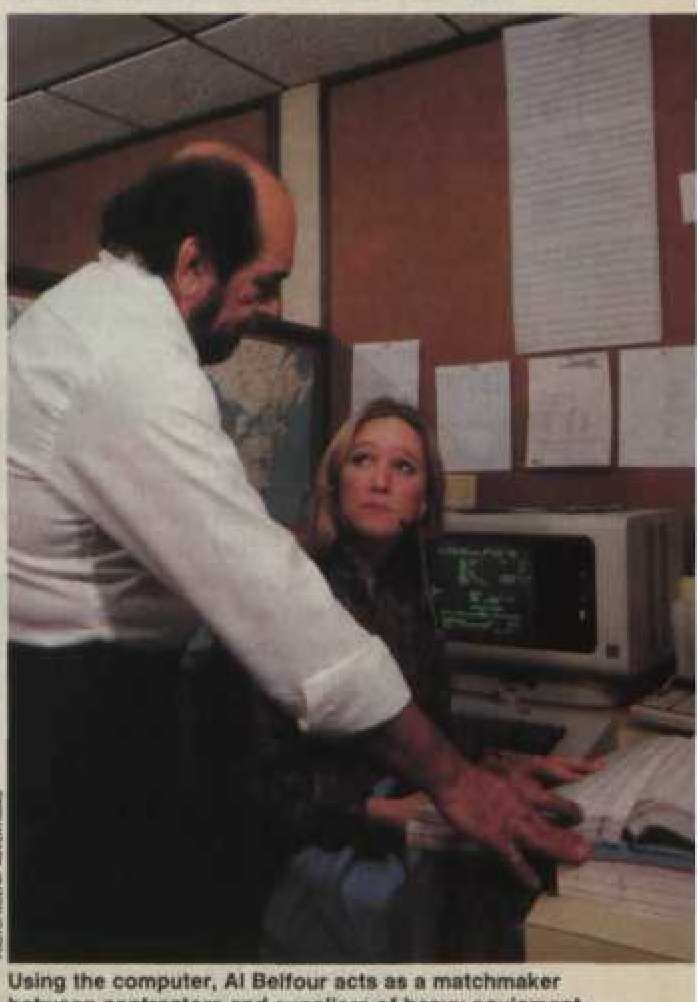


PHOTO: HILLTOP ADVERTISING

Using the computer, Al Belfour acts as a matchmaker between contractors and suppliers of heavy equipment.

The Cloud Hanging Over the Recovery

THE 1983-84 economic forecast beginning on page 20 indicates conditions are finally right for the consumer-spending surge long awaited as the cutting edge of the recovery.

Sharp drops in inflation and interest rates that have already occurred are viewed as the catalyst for increased sales of homes, automobiles and other durable goods, with activity in those key areas boosting the economy generally.

The economic outlook, as seen by the Forecast Center of the U.S. Chamber of Commerce, includes an important caveat, however: A resurgence of interest rates could threaten recovery.

Excessively tight or loose Federal Reserve Board control of the money supply could trigger such a resurgence. Concern about the board's vast power has, in fact, produced proposals that Congress control monetary policy.

The very idea of congressional control of the money supply is frightening. After all, Congress has not exactly chalked up a record of responsibility on money matters. The Federal Reserve Board should continue to make money supply decisions—decisions that, we hope, will foster recovery without sending interest rates back up.

But Congress does have a major responsibility in dampening inflation—restraining the growth of a 1983-84 budget deficit that could reach $200 billion. The entire federal budget was less than $200 billion just 13 years ago.

Holding down the deficit will require rejection of the claim of some members of Congress that the November election results represented a mandate to accelerate spending and retard tax relief. Such actions would prevent recovery.

There is no doubt that the American people want an end to the recession and its attendant high rate of joblessness. The best way Congress can achieve those goals is by nurturing the recovery with sound tax and spending policies.

Taking the Make-Work Out of Job Training

"THIS TIME, you, the private employer, will lead, not the federal government."

President Reagan thus explained to a business audience (see page 59) the crucial difference between the Job Training Partnership Act of 1982 and previous federal programs to equip the unemployed and the underemployed for success in the increasingly technical workplace of modern America.

Despite the spending of tens of billions of dollars, earlier programs directed from Washington failed because they did not have the grass-roots perspective required to match trainees with employer needs.

Trainees were too often readied for nonexistent jobs or shunted into make-work slots for government agencies.

The new law gives representatives of local business a controlling role in the operation of locally run programs geared to local job markets.

State and local chambers of commerce, other business organizations and individual businesses should go all-out to make this valuable new program work, not only for the sake of its own important goals but also as a demonstration of the private sector's ability to apply its know-how and initiative to solving serious national problems.

A Campaign Against Business Activism

THE HEAVY INVOLVEMENT of political action committees in the 1982 congressional elections has touched off a new clamor from liberal leaders for public financing of Senate and House campaigns.

They argue that public financing would free candidates from dependence on special interest groups expecting favors in return for contributions. Public-financing proposals would limit, if not eliminate, PAC activities.

It is significant that the public-financing movement did not get under way to any extent until business political action committees began growing in number and effectiveness. There was little talk of taxpayers' paying for congressional campaigns when the AFL-CIO's Committee on Political Education was the biggest and most powerful of the PACs.

Although some groups supporting public financing view it as a legitimate reform, too many people rallying behind the concept see it as a club to suppress political activism by business.

Congress rejected public-financing legislation the last time it surfaced. Nothing has happened since to alter the wisdom of that decision. □

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